

MINUTES OF A REGULAR MEETING OF THE FORT PIERCE UTILITIES AUTHORITY, TUESDAY, FEBRUARY 16, 2010, 4:00 P.M., CITY COMMISSION CHAMBERS.

Members Present: Chairman, Robert W. Summerhays, Jr.; Vice Chairman, Darrell Drummond; Secretary, Pamela K. Cully; Deputy Secretary, Michael A. Perri, Jr.; Mayor Robert J. Benton III (left the meeting at 5:00), and David Recor, Ex-Officio Member/City Manager (arrived at 4:10).

Others present: William G. Thiess, Director of Utilities; Rupert N. Koblebard, III, FPUA Attorney; Nina Hurtubise, Director of Finance; John Tompeck, Gas Operations Superintendent; Timothy E. Perkins, Director of Water and Wastewater Systems; Douglas W. Giel, Director of Shared Services; Levette Dixon, Communications Manager; and Putnam Moreman, Internal Auditor.

The meeting was called to order by Chairman Summerhays.

The Invocation was given by Craig Brewer, Electric T & D Superintendent.

The *Pledge of Allegiance* was recited.

The roll was called and a quorum declared.

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A motion was made by Mrs. Cully, seconded by Mr. Drummond and unanimously carried to approve the following items listed on the Consent Agenda:

1. Approval of the Minutes of the Regular Meeting of February 2, 2010.
2. Approval of a blanket purchase to Indian River State College, Fort Pierce, to fund the Educational Assistance and Partnership Education Program, in the amount not to exceed \$58,515.50, for fiscal year 2010. Also request approval of these programs with annual renewal options not to exceed \$60,000 to be funded in each fiscal year budget.

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A note was received from Joel R. Manzolillo thanking Eddie Richberg from Customer Service for his efforts and politeness in responding to his trash bill issues.

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Nick Guarriello, General Manager of Florida Municipal Power Agency (FMPA), presented the wholesale rates and FMPA's efforts to regain a competitive position in the wholesale power market. Mr. Guarriello said he would go through the front information quickly since the Board is already familiar with FMPA. He said he knows the FPUA power bills have gone up, these are very bad economic times, and there is a lot of concern for all the Member's customers. Mr. Guarriello said that FMPA was created to lower power cost and was very successful in early years through the year 2000. He said in some years they had the lowest power cost in the State and were successful

enough that the Project which had five members initially in the first ten years saved \$135 million. Those on the Progress System that did not come into Project, but got a guarantee from Progress Energy, which was Florida Power Corp. back then, that if they stayed with Progress they would give the lower of FMPA's rate or their rate. For all those ten years, FMPA had the lower rate and those cities that did not come into the Project saved \$35 million. Mr. Guarriello said they were successful and had lowered power cost. He said several factors have increased their power cost and the key is a much higher dependence on gas, clean fuel, and their mix. They have tried to diversify their mix several years ago by building a coal project with Jackson Electric, City of Tallahassee, and Reedy Creek. They were very close to getting it permitted, but Governor Crist came into office and issued an Executive Order that there would be no more coal so they had to cancel their project. OUC cancelled their project and TECO cancelled their project. Right now the basic option in this State is natural gas or renewables. Mr. Guarriello said they are taking action to try to correct that and get their rates lower. FMPA is owned and governed by the cities and Fort Pierce is one of thirty members of FMPA and one of 14 in the All Requirements Project (ARP). ARP supplies all the needs of 14 cities. He said, as shown in the picture, FMPA has always been a very active member, with Bill Thiess, Tom Richards, and Pam Cully attending many of their meetings and giving input. Tom Richards is the Chairman of the ARP Executive Committee. Mr. Guarriello said that their fuel costs are about one half of their costs and 65% of that is gas. He said it is a clean energy, but there has been a run up of gas prices in years. When they had their low rates, natural gas was in the \$2 range maybe bumped up to \$3. When gas prices went up at the pump to \$4, natural gas went up to almost \$14. The gas prices jumped up from 250% to 500% movement in natural gas prices. Mr. Guarriello said during those times they hedged. He said hedging means they tried to mitigate the volatility of the gas prices by buying upfront. In November 2008, FMPA was trying to base it on the June 2008 prices. They were projecting in October 2008 gas to be almost \$14 and staying in a range of \$10 to \$14. When they were looking at this back in April, May, and June 2008, they decided to hedge it around \$9.50. For several months that was pretty good because the prices for June, July, and August were \$14 or \$13. The economy in September was going into a very severe depression and gas prices dropped down to the \$3 range. In November 2008, they were still predicting gas prices around \$7 to \$8 and so \$9.50 was not too bad until they got to February 2009, and the projections were in the \$3 to \$6 range and stayed that way for quite awhile. Mr. Guarriello said they hedged and did avoid volatility, but that was no comfort when they were paying around \$9 to \$10. He said that FMPA was not the only ones hedging. A lot of the airlines hedged and he would read every couple of months about an airline having severe economical problems because of their hedging. In yesterday's paper, there is an article about the City of Lakeland and they hedged the same time FMPA did and their calculated loss was about \$180 million. FMPA's loss was about \$140 million. Mr. Guarriello said what they continue to do is to try and lower their fuel cost and their overall costs that we serve our members including Fort Pierce. He said that in February 2009, FMPA approved a new strategic plan and they met for two days with all the members of the Board and the ARP. They had a very good turn out and input and have 45 action items. He will be reporting on those action items at their Executive Committee meeting on Thursday this week. They received approval for action items back in July at the annual meeting and he is going to give this Board the 6-

month update on where they are and what they have accomplished. The actions that they have taken to remedy the situation of the higher rates is that they have a strategic plan in which their main strategy is to become the lowest wholesale power provider in the State of Florida. They have updated their hedging policy to better participate in the declining pricing in the market. Mr. Guarriello said they were hedged through November at 90% and they are now hedged for the next 12 months for about 48% at about \$9.50. The other 55% is on the spot and unfortunately the spot did not stay at \$3, it is more in the \$5 to \$6 range which is still good. They are trying to bring that average down. One month it was down to about \$6.25, but the average is more like \$7 or \$7.50. They have updated their policy not to hedge as far out and not to hedge as much. This will go before the Executive Committee on Thursday. It was approved by the Business Model Working Group and will be bringing it before the Executive Committee to only go out four months. He said they can hedge up to 75%, but only out four months. What they are trying to accomplish is to avoid the spikes. Unfortunately it was very volatile and will get more volatility in the gas costs.

Mrs. Cully asked how many months they were hedged out before.

Mr. Guarriello said that they are hedged out until 2013 and when they get to then it is about 10% to 12%. He said this year it is about 45% on the average for the next 12 months and will drop to the 30's, 20's and then the teens. With the four-month hedging, they will be going out four months and since they are already 50% hedged for the next year, they will be able to hedge about 25% to avoid those spikes. They are trying to avoid the spikes and still play the downside. They have done the calculations and their risks are very limited. On the outside chance they have a risk if it really went bad of \$20 million and at least keep some of the volatility out of it and will still play the downside. If the price goes down they will be able to get out of it in a couple of months. Mr. Guarriello said that is one of the key things that they have done. He said they suspended hedges back in August and if the Executive Committee approves this on Thursday, they will start hedging again, but only four months. They have been working very hard with the members of the All-Requirements Project's to help customers conserve. They collected about \$1 million on their rates last year and it was spread to all 14 cities. Mr. Guarriello said that Fort Pierce has made good use of that money and offered rebates to customers to help them conserve. He said this is where they are trying to work with FPUA and their customers and help them reduce their rates. One of the biggest things they have done besides the hedging is they formed a group called the Business Model Working Group back in June. It is volunteers of the ARP members and they have ten members on this board. It was put together at first as learning and they have some new members, council members, commissioners that are on this for learning. They started by going through all the contracts so they could understand where they are and now they are working on how they can improve from where they are. In talking about taking charge of your power bill as a customer and working with the City and FPUA have done a lot of good things to help their customers. Mr. Guarriello said they put \$500,000 towards the conservation fund this fiscal year so there is money out there for the ARP members. A DVD was put together that was sent to all the cities to be used with their customers. They also have a group from FMPA staff that would be happy to come here and make a presentation to the citizens on how they can

conserve. He said they did one in Fort Meade and one in Green Cove Springs. The Working Group started with different issues and the biggest one was the fuel hedging and they had three meetings on that. The Florida Municipal Power Pool is a pool that FMPA belongs to with the Commission in Lakeland and they put all their resources together to get the lowest cost. They worked with Lakeland on some concerns they had on how it was being done and they are now in the recommendation stage to help spread savings from the pool. He said it has been beneficial and it does save money for the three. They are working on a new resource plan. One of their concerns is their mix of resources and they are looking at different options. They do not have coal and are looking at nuclear, but Florida Power and Light has put a hold on their nuclear units they were planning. Progress is saying that they are going to move ahead and Seminole is working with them on a 90 megawatt shared by Levy County nuclear in April. They have slowed down and they will not allow them to start any preconstruction. With FPL not getting their rate increase, FMPA has not heard from them in months. FMPA still has that option open, but it is an expensive option. The initial analysis on the costs shows that it could be beneficial to the agency starting in 2016 when they are suppose to complete it. Mr. Guarriello said that he feels it will help them diversify and possibly reduce the costs. He said they told the Executive Committee they would not spend another penny since August until they get them the new information. Some of the members of the Executive Committee do not want to have anything to do with nuclear and some members are at least interested in looking at it and consider if there are benefits. They have their staff coming up with alternatives of ways they think they could offer it to individual members as a project. To say that Fort Pierce is interested and Fort Meade is not, the whole ARP does not have to get into it. It could be treated as an excluded resource and give them the ability to at least look at it. Mr. Guarriello said there have been some questions from members on Cane Island Unit 4 project and the gas unit is going to come in May 2011 and we should continue that unit. He said after some work, he believes they have convinced the Executive Committee that this BMWG should move ahead and not cancel the project because we are too far into it. They are now working hard as a staff to see if they can sell some of that excess capacity in the market to help reduce costs. They are looking at other joint action agency structures on how they might improve and have a presentation tomorrow to the group about the demand-side management that will control the efficiency that they are going to look at from the FMPA-wide basis. Mr. Guarriello said that at the urging of some of their members including Fort Pierce, FMPA is looking at their rate methodology. He said that FPUA has voiced some concerns on the forecast not being too accurate. They are presenting their second meeting on it tomorrow trying to stabilize. The main way they can do that is by forming a rate stabilizing fund and putting some money aside, about \$30 million. They are having a meeting on some options on how they can get the \$30 million. There are some concerns of some members of FMPA holding onto the \$30 million and stabilizing the rates versus the cities doing it themselves. FMPA is open to the combination and believe the only way they are going to avoid that volatility in the forecast errors is to have some kind of rate stabilization. The cost is not going to stay constant; it is going to go up and down. He feels if they have a way of stabilizing that when they have higher loads, it will have to be talked about.

Mayor Benton said that we are trying to get the public to understand why the rates are what they are. He asked Mr. Guarriello that when he said the Governor stopped the coal plants that were in the works, if those plants came on line, would that lower the cost of power to the residents of a city like Fort Pierce. He said he is not a supporter of coal, but is a supporter of nuclear power.

Mr. Guarriello said that when they did those projections in 2007 and early 2008, yes it would have lowered the cost. He said coal fuel costs are lower than gas and a lot lower than oil. The capital cost is more, the initial construction cost. Treasure Coast came in at about \$1,000 and Cane Island is coming in at about \$1,500.

Mr. Thiess said Treasure Coast came in about \$950.

Mr. Guarriello said for the coal plant, they were projecting for Taylor County to be about \$2,500 per KW. The fuel cost when gas was about \$5, coal was about \$2. He said one offsets the other. They were showing it as economical. The Stanton units use it.

Mayor Benton asked if this would be considered clean coal.

Mr. Guarriello said no, what they were looking at Taylor County was going to be cleaner, but not what they call clean coal. It is still a pulverized coal unit and the concern always was, when they were looking at it, what happens when they come in with greenhouse gas legislation, carbon tax, or cap and trade. What effect would that have? TECO and Southern/OUC were going to build a clean coal integrated gassification combined cycle unit (IGCC) where they clean the coal up front and turn it into gas. They clean it at the front end which would be less expensive if they have a carbon tax. They were canceled too. The Governor did not think they were worthy of being built and there were some concerns about where to store the carbon dioxide. The Governor has decided with the economy, if they put a clean coal tax in effect, it would hurt the economy and it would not be a good time to do that.

Mayor Benton said he is in agreement and that he is not a supporter of coal, but he wants to get a message out to the public. Because we are trying to have cleaner electricity, the cost is going to be more. He asked when it comes to nuclear power, why does it take ten years to permit a new plant when we have several that we have not had a problem with in this country. When it comes to the megawatts, unit one and unit two down here are 450 megawatts so they are big plants versus them wanting to build a lot smaller nuclear plants now a days.

Mr. Guarriello said the St. Lucie Nuclear Plants are both 800-megawatt units. The Levy County ones were going to be two 1,100 megawatt units and FPL's were two 1,100-megawatt units. The ones in Georgia and North Carolina are 800-meagawtt units. He said what Mayor Benton might be referring to is the modular one that is 125 megawatts. They are looking into it because they think they can get them permitted and built quicker. Mr. Guarriello said he agrees with Mayor Benton that they should be built to economy scale. They are still looking at 1,100 as far as Progress is concerned and FPL.

Mayor Benton asked why does it take ten years to build? He said he does not understand when we have had very good luck with the nuclear units, it does not make sense. The initial costs are extremely expensive, but get better over the life span of longer than 40 years. But why ten years? When we are looking to the future, we should be building these plants now.

Mr. Guarriello said that 85% of France's energy is nuclear and they have not had any problems with it. The NRC is now saying that they should be able to permit them, not build them, in four years. They streamlined the permitting process from 42-48 months. In the past you had to get a construction permit first and take a risk if you build a plant and by the time you get it completed they do not give you the operating permit. That has now been combined into a combined operating and construction permit. They claim that in 42-48 months you can get your permit and it will still take approximately eight years to build. They used to allow some early site clearing and putting early costs in the base rate, but now they have said no to Progress, but they said yes to the one being built in the north. Progress feels like they could get it built in eight years. They were starting in 2008 and would have their first unit on in 2016, and their second unit on in 2017. In North Carolina, they are still talking about 2016 and 2018. There is still a lot of concern to go slow and be careful. A coal unit would take 4 to 5 years; the gas unit in Cane Island will be done in about 3 to 4 years, including permitting.

Mayor Benton asked what they are going to do when the lights start going out because they are not allowing anything to be built unless it is natural gas which is extremely expensive? We build these plants in less than five years. Maybe they forgot what happened in California some years ago and if they do not get going, it is going to happen throughout the country.

Mr. Guarriello said that Gainesville is trying to build a renewable plant, a biomass plant, which is carbon neutral and the government had been pushing. They have been moving along and were all set to get it permitted and when they went to the Public Service Commission (PSC) last Tuesday, during the hearings it became obvious the PSC was not going to approve it and they pulled it off the table. We cannot go with coal; we do not seem to be able to go nuclear, now we cannot build renewable. The only thing that is left is the gas project and that will make the price go back up again.

Mayor Benton said it sounds like they need to replace the PSC with some people that have some knowledge in the electric business.

Mrs. Cully said she remembers seeing that nuclear was going to be extremely expensive up front, but over the long term, it would be much cheaper. She said that Mr. Guarriello talked about France having 85% of their power as nuclear, what are they doing with the waste?

Mr. Guarriello said that France reprocesses their nuclear waste, which we are not allowed to do in the United States because of fear that it could be used for nuclear bombs.

Mr. Perri said their reactors are entirely different than our reactors, they are breeder reactors.

Mr. Guarriello said they reprocess it and the risk is it could be used by terrorists. He said when you reprocess you do not get rid of all the wastes, but you get it down considerably and then you store it.

Mrs. Cully said the other thing that you take a great chance on is that it takes seven to ten years and with technology the way it is going something else better and greater could come along. She said she is for the nuclear because at this time it seems the best way to go. Mrs. Cully asked about solar and if FMPA is looking into that.

Mr. Guarriello said that the Members gave them direction a couple of months ago that they would rather wait because solar is much more expensive and all it would do is raise the rates. The wholesale power cost is about \$100/MWH and solar using Gainesville as an example has a feed in tariff that they will buy any solar that a customer put in for \$325/MWH. They limited it to a maximum of four megawatts in a year and they went out four years. They are an 800-megawatt system. Mr. Guarriello said they were looking at doing a ten megawatt preliminary and up to a 100 megawatt at different city sites. The members backed off and they do not want to do anything that will raise rates right now. They are doing a 30 kilowatt solar project in Key West that they are dedicating next month and it came on line two weeks ago. It is working great. NOAA down in Key West put up 35% of the costs and they get 35% of the energy. FMPA is talking to Gainesville about possibly taking a piece of their biomass project which is pretty competitive, but now it is on hold. He said one of their members said the best kilowatt is the free kilowatt that you do not use. They are working on their rate setting methodology and fixing the demand cost for twelve months to avoid volatility demand. If they cannot set up the rate stabilization fund, they will have to charge an actual energy cost that varies month to month. They will try to set up the rate stabilization fund to try to stabilize their energy cost so they can give projections that may not be perfect, but they will be a lot closer so that FPUA can plan. A lot will depend on the members being willing to go along with the recommendations and they will have several scenarios that will go through tomorrow. He said some members feel very comfortable with it and some members do not. Mr. Guarriello said that there is rate volatility and what they are trying to focus on is fixed demand. He said on the slide presented, the blue line is where they have been and you can see how volatile those rates are. The red line was a four-month smoothing approach and the purple line is where the group went along with at the last meeting and said to focus on that and see what kind of scenarios we can run to see if FMPA can really do what is being shown. Mr. Guarriello displayed the slide that showed where FMPA has been in the last 12 months with their rates for FPUA. He said he has these numbers for every city. FMPA's wholesale rates were pretty high in January 2008 through March, then coming down some in April and coming down significantly more in July through October. It started bumping up again because of FMPA's working capital and they are trying to avoid it from going up to \$130. He said the actuals for last week, depending on the load factor, are anywhere between \$80/MWH and \$85/MWH. They have gotten their rates down and Fort Pierce's retail rates were pretty out there and they started bringing them

down some, but FPUA's reserves were hit pretty hard when FMPA's rates were high. Mr. Guarriello said with their rates coming down, FPUA will have an opportunity to bring their rates down if FMPA can keep theirs down. He said some of their cities have already done that and it depends on what they wanted to do with their rates. Several are higher than FPUA's and they are all working on building up their reserves and get back to where they were and then start bringing their rates down. It is something done on a retail level. FMPA is working hard to keep their rates below that \$100 and not get back up to where they were. A lot depends on gas prices staying in the \$5 to \$6 range. Mr. Guarriello said what they are looking at for 2010 between December and March, they are looking at significantly lower rates. The average between 2009 and 2010 is almost a \$13/MWH reduction and they are looking at 10% to 11% reduction in rates on average. He said that gas prices are a big thing that could change that. If one of the Stanton units went out for a long period of time or something like that, it could have an effect on it. They had a good month in January. Mr. Guarriello said he would caution that they were able to lower the rates in January, but when the customers look at it, the costs are still high and rates equal costs. He said part of the reason the rates came down is because they had a large demand because of the cold front and that helped them spread their costs. FMPA is going to charge a lower rate and FPUA might charge the customer a lower rate, but they used a lot more in January and they will see their bills go up. The customer has to look at their rate and look at the bill itself and over time that should come down. They feel pretty comfortable with their projections right now based on the assumptions they have in there.

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Valerie Schulte, Supervising Engineer for Water/Wastewater/Gas Engineering, presented the current status of Water and Wastewater Systems' projects. Mrs. Schulte said she is going to be providing information on projects for this budget year. They are a mix of capital improvement charge (CIC) funded projects and renewal and replacement (R&R) projects, which are rate funded. Because of budget restraints this year, most of the R&R projects are concentrated around work areas where FDOT, the City, or the County have roadway work planned. She said that entire areas of the City have some cast iron pipe line and galvanized steel pipe line. A lot of those have reached their useful life and we have had some problems with some of these during the cold spell. Annual funding for these replacements is necessary to maintain our level of service to our customers. Mrs. Schulte said the CIC-funded projects are usually determined on the hydraulic model, review of deficient fire flow areas, and potential for new customers. She said that A1A water and wastewater improvements are going as the roadway work is going on. Most of the phases, with Phase 3 being done first, Phase 2 is finishing up and most of the utility work is done in that area, and Phase 1 is under design and will be budgeted in the next fiscal year. The total costs for all these phases to the utility, which included water main deflections, force main deflections, new fire hydrants, and a lot of lateral relocations are going to total \$3.5 million.

Mrs. Schulte displayed a picture of a 16" high density polyethylene water main deflection, which started during the day and finished up at night. She then displayed a picture of a conflict with a storm drain structure, which is the lateral serving the Texaco gas station that was in conflict with the storm drain. A conflict box was constructed to

reroute it. The utility improvements for 13<sup>th</sup> Street is a project that the City received some stimulus funding for and FPUA is working with them to get this project designed and constructed. The design is complete and the construction should begin in the spring around April. The construction of the water mains is estimated at about \$160,000 and wastewater replacements at \$120,000.

Mrs. Schulte said that the Juanita Avenue water main relocation is an existing water main that is located on the bridge that crossed Taylor Creek. She said this water main is the main service to areas on U.S.1 north and North Hutchinson Island. It is a critical 18" transmission main for FPUA. They looked at trying to move it to the new bridge structure, but there is limited right of way and with the construction time frame, they were not able to do that. Mrs. Schulte said they worked with the County and through an Interlocal Agreement that this Board approved, the County is providing FPUA with some advanced funding that will be paid back through in-kind services. She said that North Hutchinson Island is one of our biggest customers; they use about ½ MGD of water. Construction completion of the water relocation is estimated to be March 2010, so the County can move forward with their project. The Electrical Engineering Department has work in that area also. Shown in the slide are the existing water main and the existing 4-inch steel gas main that has been bored under the creek canal. The utility poles are ones that Electric Engineering is going to have to work at temporarily relocating for the bridge work to get completed. It shows the pipe line heading north on 13<sup>th</sup> Street to tie back into Juanita Avenue. Mrs. Schulte said that the picture displayed shows the drill head that was used to bore the 20" HDPE pipe. She said from our inspectors watching the welding process, they noticed there were some pipe defects and a couple of the welds were not good. They had to actually cut sections out and re-weld, which was difficult when the pipeline was all in one piece. The slide presented showed the wet tap on Juanita and Mrs. Schulte said she is not sure if it was the impending rain or because they knew when they did the construction, they would have a little bit of a leak they would have to deal with.

She said lift station 30 is located very close to the intersection in the middle of the street and it is very difficult to maintain the station. There is a lot of maintenance of traffic issues and it is a hazardous location and we were able to obtain a small easement on the corner of the property. This project is out to bid and bids will be opened on February 22<sup>nd</sup>. The Engineer's estimate is \$270,000.

Mrs. Schulte said the Pine Avenue and Forest Terrace project has been to the Board as a budget transfer. She said this area has deteriorated water mains and insufficient fire flows. They will be replacing the pipeline in Pine Avenue and Forest Terrace. Construction cost is estimated at \$80,000 and is scheduled to start in March. Mrs. Schulte said that on Avenue Q, which was recently brought to the Board, there is a requirement to receive the Community Development Block Grant (CDBG) funding that all the low and moderate income properties be connected. They have to show that there is beneficial service. The properties that have the "sad faces" are the properties that we have not received service applications from. Most of the other properties there are no annexation issues. It is the low to moderate income people that need to come in and sign up for service.

Mrs. Schulte displayed the sketch showing the water treatment plant (WTP) deep injection well (DIW) interim mechanical integrity testing (MIT). The FDEP requires that the tubing be tested for pressure so that there is no movement between the deep zone of water and the upper zone where everyone draws drinking water from. She said the site location map shows the lime plant, the reverse osmosis plant, and the different tanks. It also shows where the deep injection well is located. The Interim MIT was completed in January and had to be done before February 2<sup>nd</sup>. She said they estimated the cost to be \$25,000 and the bids came in at \$16,000. It was required to have less than 5% pressure loss and the testing showed that they had 3.2% loss. This requires the reverse osmosis treatment plant to be shut down for the 24 hours to complete that test. Mrs. Schulte showed a slide of workers installing a Larkin wellhead assembly to seal the wellhead and allow tubing to be installed to the bottom of well for pressurizing a packer. The large bag of salt was used to add brine solution to the well so it would lower the water level so they were able to work without artesian pressure. She displayed a picture showing the packer pressure reading gauge. The Packer has to be installed down the tubing and pressurized to hold so that the tubing can be pressurized to about 150 – 155 psi. That has to be held for one hour with less than 5% pressure loss.

Mrs. Schulte said that the Elm Avenue water main loop project was brought to the Board recently for budget transfer. She said they are installing a 6-inch main between Weatherbee Road and Midway Road. There are 31 potential customers and six customers are ready to hook up as soon as the water main is in the ground. The Copenhagen Road/Samba Street to Kings Highway water main loop project is to provide increased fire flow availability, reliability, and improve the systems' hydraulics in the northwestern area of town. Design completion is scheduled in March and construction in June. There are 35 potential customers in that area.

Mrs. Schulte said that Sunland Gardens, Phase II has been around for a long time and is still under construction. It is an MSBU project and consists of about 10.5 miles of pipeline, 39 hydrants, and 620 potential connections. She said they have been working with the unit price contractor to keep the costs down. They are doing some boring under the driveways and minor design changes to keep the cost lower. Mrs. Schulte showed a slide of a typical trench installation of the 6-inch PVC main in the neighborhood. She also showed a typical fire hydrant. There are two phases that have been completed so that those two areas can start getting hooked up.

Mrs. Schulte said some of their ongoing work consists of assisting Industrial Pretreatment with an onsite lift station program they are trying to implement, assisting Water Distribution with water quality issues in the distribution system and development of GIS functionality. She said they have a new website and programming devices for the field. We are working with finance on uncollected guaranteed revenue charges; updating the water and wastewater hydraulic models; reviewing development projects, site plans and building permits; working on in-house design of water main looping projects and rehabilitation projects; continuing project management of developer and

capital improvement projects; evaluating potential future well sites and raw water pipeline routing, and providing general technical assistance to the other departments.

Mrs. Schulte said that Andrew Byrd and Dewey Hudman supplied information for her to give a short and brief update for the Water Distribution Department. She said there is a lot of water and wastewater infrastructure in the City of Fort Pierce that has reached its useful life. We need to continue to fund these projects now so that on an annual basis and in future years we are not stuck with such large expenditures. Mrs. Schulte said these will be forced on us by regulators if they start to see our level of service go down and a lot of leaks going on. She displayed a map showing the locations where the cold weather had impacts and it shows how it was spread out throughout the city. At 1208 North 17<sup>th</sup> Street a water main leaked and created a large mud hole. The pipeline is not buried very deep at this location. This was a 1-inch service line that pulled out from the main. On 25<sup>th</sup> Street and Mississippi they had to excavate to find the problem. Quite a bit of the roadway had to be shut down and a repair sleeve was put on to fix it. Mrs. Schulte said that this main is in very poor condition and there were multiple leaks on this one section of 10-inch pipeline. Engineering is evaluating options to replace or eliminate this pipeline. At 16<sup>th</sup> Street and Orange Avenue there was a mainline leak at the lead joint of cast iron pipe. A PVC pipe was added, some valves, and some fittings. The pipe that was removed said it was installed in 1925. On the bridge near the nuclear plant there is a 12" pipeline that was leaking at a joint. During the cold weather it was a steady stream and as the weather warmed up it slowed down quite a bit from the expansion from the heat. Mrs. Schulte said that during the repair they found a lot of the pipe is in poor condition and they are evaluating whether they can re-coat it or if the better option is to bore under the channel.

Mrs. Schulte showed the table that summarized the number of problems that were solved which was 52 at a cost of \$160,498 plus some of this does not include the invoices that we may receive from some of the contractor work that was done. The cost per repair was pretty high and it does not change too much between the mains and the services because a lot of the work is excavating and then doing the asphalt repairs. Mrs. Schulte showed the number of overtime hours for FY 2009. She said that in March 2009, Distribution implemented a late shift crew which was thought that it would save quite a bit of overtime, and it has lowered the average per month. They work four 10-hour days, which means they can respond later in the day. The average for 2009 was 204 hours per month of overtime. The cold weather spell in January is going to impact their average for the year in overtime. At the first part of the year, they were under the 204 average hours of overtime. There are 112 miles of cast iron pipe in the system that is likely going to show these failures at some point. Mrs. Schulte said that because of this impact in January, it is likely that the Water Distribution Department will be bringing a budget adjustment to the Board for increasing their contract for their asphalt repairs.

Mayor Benton asked if the overtime and replacement costs because of the cold weather and being that the Governor declared the State a disaster area to help the farmers, this would not have happened had it not been for the cold weather at least all at once, is there a way to put these costs into the federal government for reimbursement.

Mrs. Schulte said that has been mentioned, and she did not know if Nancy Dallaire, our Risk Manager, would be the person to look into that.

Mr. Thiess said that he thinks it is a long shot, but we could certainly look at it. He said it is different than the agricultural situation, but is a direct effect. They may point to the aging infrastructure that was going to need to be fixed anyway.

Mayor Benton said that he would imagine that this has happened in other cities. This happens everywhere when we get this unusual cold weather, but being in the utilities business, if enough utilities had these cost, it is worth looking into. He asked also about the expansion on Elm Avenue and Copenhaver Road, what initiates us to go out there and put lines in the ground. Do we send a survey out to the residents and get a response that more than 50% would like water?

Mrs. Schulte said that they have developed a spreadsheet that showed different requirements such as fire flow for neighboring areas that would be improved by that loop, the water system hydraulics based on providing the correct pressures during max day and peak hour, and potential for new customers. She said that on Elm Avenue they did have some inquiries and it happened that a loop was required in that area so they were able to put it on a street where we would get some hook ups.

Mayor Benton said so we are doing it to create a loop.

Mrs. Schulte said that these are all looping projects. She said they try and target ones that are going by existing residences so there is a potential for hook ups.

Mayor Benton said that after this presentation, he knows he will get the questions from residents that now that the line goes out front, are they required to hook up and sign an annexation agreement. He said he will say that it is his understanding that they do not have to hook up unless they want to.

Mrs. Schulte said that is correct. If they do want to hook up, they will have to sign an annexation agreement.

Mayor Benton said it was voluntary, if they want water, they will have to sign annexation agreement.

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Mayor Benton left the meeting at this time, 5:00 p.m.

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Don Landin, Sales Account Executive for FPUAnet Communications presented the Status Report for Fiscal Year 2009. Mr. Landin said that they had a good year in 2009 so he wanted to brag about it. He said that optical fiber is the fastest used medium used today for voice, video, and data. We started to use optical fiber in a big way in 2000 for connections for most of their locations for all sorts of applications. Mr. Landin displayed a map showing the locations of their fiber optic network. He said they use a ring

infrastructure so there are multiple paths to each site. One of the main purposes for providing modern cutting edge communication services in Fort Pierce is for economic development. He said that more and more businesses are relying on data communications and if we can provide it, that is fine, but if we cannot, at least we are exerting competitive pressure on those that can. Mr. Landin said that they have a Mission Statement for FPUAnet Communications "to help promote economic development and meet the needs of our community with enhanced, reasonably priced communications alternatives." As shown on the displayed slide, he said it shows how their redundancy works. They have two gateways, two upstream internet providers and if one of them should go down, the other one takes over the traffic. It is the same with each site. It has more than one pathway so if one pathway should happen to go down, like if a truck hits a pole, then it will automatically follow the other path within ten seconds. Mr. Landin displayed a list of their highest value, dollar wise, customers and said they are all important. He said most of them are government agencies and there are also some private enterprises. They project what their bandwidth needs will be for the next few years. It is variable because if we have opportunities to provide a large service to somebody, then it will shorten the time until they will need the higher speed. He showed a chart of the last two years of financials. The unit revenue probably is the biggest thing that we like to look at. There are three peaks and those are major capital contributions by customers like the Lawnwood Regional Medical Center back in May 2008 \$15,000, the police department \$71,000, and the school district \$114,000. Mr. Landin said on the profit and loss statement for FY 2009 a change in net assets of \$257,937. In a private company that would be called profit. He said we made a \$466,000 investment in FY 2009, so the net cash flow after the profit was close to (-\$200,000). We have a net investment of approximately \$200,000. We added six sheriff site services, did a joint surveillance project with the police department, added 14 schools to the network, started for the first time to use their competitive location exchange carrier certificate with the Public Service Commission, and brought in some funds from the federal government through the E-Rate program. Mr. Landin said FY 2010 highlights are that we signed an Interlocal Agreement with the County that applies to all the constitutional offices as well as the 19<sup>th</sup> Judicial Courts. He said that contract allows for higher setup fees and lowers the monthly rates, but it also helps the cash flow for FPUA. We are looking at some grant projects for 2010 such as a wireless broadband pilot project. Mr. Landin said that although we applied for grant funds for the city-wide wireless mesh network, we did not get it. He said the new round of funding does not allow for that particular type of project. Additional grant projects are fiber to 50-80 institutions in the City of Fort Pierce, the possibility of fiber out to the new EOC, possibility of fiber to Okeechobee which several of their customers including the district courts and the school district have asked for, and interconnecting Port St. Lucie, Martin County, and Hometown Cable.

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Mr. Thiess said that he wanted to update the Board on the delay claim for North 25<sup>th</sup> Street. He said he knew that it has been talked about one on one, but did not know if it had been discussed as a Board. This goes back to 2005 and the project involves a strip of land on the west side of U.S.1 on North 25<sup>th</sup> Street, mostly north of the water plant. Mr. Thiess said we have a raw water main and a gas main in that strip of land. He said

there have been a lot of discussions and we have been working with the City and with the FDOT as far as making this project happen. At some point, the FDOT had to acquire that strip of land to make it a viable project. While these discussions were going on, the designs were being done and the construction started. On September 5, 2006, the City quit-claimed the strip of land to FDOT. Mr. Thiess said that all the ducks were not in a row prior to that quit-claim and that is where the problem started. Once the City quit-claimed the land our utilities were there and we were subject to FDOT requirements, which basically when you are in their right of way by permit or by acquisition, you have to be responsible for relocating your utilities, making adjustments, and are responsible for any delay claims that your work causes in the progress of their contract. FPUA got in there as quick as we could and spent about \$131,000 doing relocations and adjustments to the water main and the gas main. We did not finish that in time to get out of the way of the FDOT contractor. The FDOT contractor got to where they were not able to progress their work until we got out of the way and so they submitted a claim. On March 6, 2008, FPUA was notified by FDOT that the claim was settled between FDOT and the contractor for \$182,000. We went to mediation and they came back with a final offer of \$90,000. Mr. Thiess said the situation right now is that the Mayor is going to bat with his contacts in our legislative delegation and has tried to contact FDOT, but has been unsuccessful. We are trying through our legislative delegation to negotiate that down to a smaller amount. He said he does not know how successful that may be, but his guess is that it may not be successful. We have approximately 30 days before the lawsuit will be filed so we will have the next two meetings to make a decision. The decision at some point and time will have to be do we take the settlement with or without the City's assistance. Our position is that they probably should help us because we were both involved in it and if we had better communication, we would not be in this situation. If the property had been given to FDOT with the restriction that they were responsible for the adjustments, we would not have incurred the \$131,000 utility relocation costs and we would not be subject to the \$90,000 delay claim. For one reason or another, that did not happen. Mr. Thiess said we are sort of in this together, but the lawsuit is against FPUA and not against the City. He said by the next meeting we should have a status report and by the second meeting in March, we will bring an agenda item to the Board with the Staff's recommendation to take the settlement or take it to court. This is for information only and we are not asking for any decisions.

Mr. Koblegard said that Mr. Thiess covered it pretty clearly. He said that if we do bring it to the Board and it is approved for the \$90,000, we worked it out with FDOT to pay \$45,000 in March and \$45,000 in October with no interest on the second payment so we could have it in the two budget years. Mr. Koblegard said that at the mediation it appeared fairly clear to us that we could not argue with FDOT about the delay claims, they were legitimate. It would be nice to be in the position to argue about the \$182,000, but he does not believe we would win in court on that. He thinks those claims, as best they can tell, are legitimate claims for which we are responsible as a result of being in the FDOT right of way as a result of the quit-claim deed by the City. If we did go to court, what we could do is bring the City into it. We could third party them in and say if we owe the delay claim so be it, you the City should pay it because you cut the legs out from under us when you quit-claim the property to the FDOT without our knowledge.

Mr. Koblegard said that if we wanted to go further and say that the City also cost us \$130,000 by putting us in their right of way that would have to be a lawsuit against the City. He said all we would be doing there is transferring the funds from the City to FPUA and there would be a cost involved in that. We would have the legal fees from the utility authority side and the legal fees from the City side and the pot of money would be transferred from one entity to the next, but it would be reduced by those costs. The City taxpayers would be paying it and FPUA ratepayers would be paying it so that is not a legitimate way to go.

Mr. Summerhays said that is a situation to be avoided at all costs, if at all possible.

Mr. Koblegard said that FPUA is trying to work with the City to get them to agree to help us out on this in some fashion. He said that is not a good situation, but that is the most reasonable way to resolve it if the Mayor is not successful in Tallahassee.

Mr. Perri said that he is not in favor of a litigation especially dragging the City into it. It is taking money out of one pocket and putting it in another. It does not make sense to incur that attorney expense. He asked Mr. Recor if the City is of a mind to step up and help us out with that.

Mr. Recor said there are pros and cons to the City's participation. He said they have been and continue to entertain alternatives. Their legal side wants to fight and defend and then the other side is to compromise and settle.

Mrs. Cully said that she would agree with Mr. Perri that the longer that we continue, she does not see that the outcome is going to be good for anybody. She said the rate payers, the tax payers, we are all the same. We will all end up paying and the legal counsels will end up getting the better of it.

Mr. Summerhays said that litigation between the FPUA and the City is not good.

Mr. Koblegard said that, if in fact the City's legal department thinks that there is some way to defend this action that would be wonderful. He said on the delay issues themselves, he does not think we will get very far. The fact that the City conveyed the property to FDOT, we do not get anything from the FDOT for that. If there is some other legal means to defeat the FDOT's claim in court, Mr. Koblegard said he is not aware of it today. He said if the City's legal department can think of something, he would be more than happy to participate in that.

Mr. Summerhays said that this seems to be something we want to leave at the staff level for now.

Mr. Drummond said he is comfortable to letting it stay at staff level for now. He said he just knows that at some point when it does come to FPUA paying it, he would hope that the City is willing to look into terms of other issues that they of spoken in terms of litigation that is outstanding with us.

Mr. Thiess said there is a State Statute that went into effect in July 2009 and that this could not happen under that Statute, but it was a little late to help us.

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Nina Hurtubise, Finance Director, presented the September 2009 Quarterly Financial Operating Results. She said that we have year-end results of \$7.9 million increase in net assets, but of that \$6.7 million was Contributed Capital. If we did not have the Contributed Capital, which we cannot spend, we would have had a \$1.2 million bottom line. Mrs. Hurtubise said that considering we are a \$100 million organization, that is a pretty thin margin, but it is still to the plus. She said we are continuing to see the decreases in all units billed as compared to previous years. Electric is down 8%, water is down less than 1%, wastewater is down 6%, and natural gas is down 3%. Mrs. Hurtubise said that on the Operating Revenue, the electric is up a little bit less than 1%, however, a big chunk of that is the power cost adjustment (PCA) of about \$3.2 million. In reality the electric rate revenue and operating revenue is actually down about 5%. Water is up about 5%, wastewater is up about 4%, and although it shows that the natural gas is down about 15%, without the purchased gas adjustment, which decreased this year, the natural gas revenues are actually up 1%. Overall, Operating Revenues for all the systems are up 0.55%. Our Operating Income versus our Debt Service shows twelve-month rolling numbers, they are not year to date. Our current Debt Service Coverage ratio for the twelve months ended September 30 is 2.91, which is well above the coverage ratio 1.25, which is required by our Bond Covenants. Mrs. Hurtubise said that the changes from last year to this year are that we had a reduced change in Net Assets compared to last year. She said the biggest reason for that is our Contributed Capital fell \$12.5 million. Under Grant Revenue, we did not have a wastewater grant in 2009. Investment Income was down \$941,000. She said we are keeping our money safe, but it is not earning very much interest. The extraordinary item of demolition of the power plant in 2008, we were showing a net gain or income of \$394,000. In 2009, we had expenses of \$346,000 so there is a swing of \$741,000 between the two different years. The decrease in Contributed Capital continues; it is about one-third of what it was last year. She said there is a little bit of sunshine left here. Our interest expense was down \$450,000 because of the variable rate pooled loans that we were carrying with FMPA. Because the interest rates were so low and we earned so little, we also did not pay as much. Our employee's health insurance and other insurances are down \$300,000 and other professional fees were down \$152,000. The two largest areas that we saw those decrease were in the area of the power plant, where we had a security guard that we were required to have even though we were not operating, and our attorney's fees were less. Our gas, oil, and lubricants are down and our consulting engineering fees are down \$140,000 from the prior year. The Distribution to the City of Fort Pierce that we will pay once we complete our CAFR and have our final audit completed is about \$4,850,000.

Mr. Summerhays said that he noted our ratios are all up or at least moving in the right direction. He said he would not call them truly amazing, but they are moving in the right direction.

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Mrs. Hurtubise presented the status report on Electric Power Cost Adjustment Over / Under Recovery for January 2010. She said that the month of January, as Mr. Guarriello indicated earlier today, we had a pretty good January. It was not as good as they projected, but it was very good in that we had a \$359,000 over-collection from our customers even with the \$50 PCA. Our current over collection from our customers is approximately \$2.2 million. Mrs. Hurtubise said to keep that number in mind as she goes to look at the projection prepared by PRMG. She said in the month of January where we have this \$2.2 million over collection going forward, what she wants to emphasize is that based on the projections made by FMPA and PRMG, we anticipate to lose about \$1.3 million of that over collection in the month of February. In the month of March, we expect to lose \$435,000 and come the end of April, we will have an under collection. In about 2 ½ months the over-collection that we have been accumulating over all these months will be gone, assuming all projections are reasonably accurate. Mrs. Hurtubise said at this time, we do not recommend any change in the PCA because we expect it to be eaten up in the next couple of months with significantly higher rates than we have seen in the last few months. She said this is an information only item unless you choose to make it an action item.

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Mr. Koblebard presented Resolution No UA 2010-02, which is revision of Resolution No. UA 2009-10 to include the due process language set forth in Section 2(b) of the revised resolution. He apologized that he did not attach a copy of the Resolution that was being revised. On page two of the Resolution, paragraph (b) and down nine lines where it says "charged by FPUA", everything from there on has been added in that paragraph. Mr. Koblebard said that we put in another step to allow someone that gets this notice to come back and meet with FPUA's Customer Service Manager to try to resolve it short of us going forward.

Mr. Summerhays asked if this was 30 days before a lien is filed.

Mr. Koblebard said that is correct. It gives them another chance to come in and try to work it out if there is an issue or they question the legitimacy of it. He believes it is a good idea to add this language. After this, the process would pick back up and we would have a right to lien and we could go forward to collect on the lien. The staff has decided right now, we would not move to foreclose until it got up to over \$1,000 because of the cost involved. He said to record the lien it is minimal, it may cost \$50. Staff is talking about anything that is \$500 or higher, we would do that. The Resolution is the same as the Board approved before. This will allow it to go to the City to become an Ordinance in the City's Charter.

Mr. Drummond asked if this is an additional step to allow them to come in and have a hearing. Is that hearing with the Customer Service Manager?

Mr. Koblebard said yes. He would be the one to sit down and try to work it out with them.

Mr. Drummond said they are requesting an opportunity to question the Customer Service Manager's decision.

Mr. Koblegard said it is the amount that the meter said they owed that they did not pay. If they want to come in and discuss that, it is felt that it would be a reasonable step prior to actually filing a lien on the property where we could foreclose and take the property away.

A motion was made by Mr. Perri and seconded by Mrs. Cully and unanimously carried to approve Resolution No UA 2010-02, which is revision of Resolution No. UA 2009-10 to include the due process language set forth in Section 2(b) of the revised resolution.

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Mrs. Nina Hurtubise presented Resolution UA 2010-03, the Final Budget Amendment for FY 2009. She said it will be the same numbers that she presented earlier in the meeting. Our revenues are not as high as it was anticipated they would be. The last presentation was comparing to last year and this is looking back at our most recent amended budget on August 4<sup>th</sup>. The expenses were down \$6.2 million than what we anticipated them to be. We are very pleased to see that result. These numbers are net of transfers. Mrs. Hurtubise said what the transfers are, is the capitalized salary benefit and overhead costs that we include for budgetary purposes so that we are comparing gross salary to gross budget. She said that is one less variable that we have to make a mistake on. Looking at our revenues system by system, the electric consumption is 2% up from what we predicted in the amended budget, but the operating revenues are down by about 1%. On the water, the consumption is flat and the operating revenues are down about 3%. Wastewater consumption is down 3.5% from the amended budget and the operating revenues are down 3%. Natural Gas consumption is flat and operating revenue is down 11% from what was projected, but most of that is PGA. On the Operations and Maintenance there were decreases across the board in almost all areas. About \$2.5 million of that was the Other Post Employment Benefits (OPEB) that we have been talking about year in and year out. This should be laid to rest very shortly. We only recorded about \$13,000 in the FY 2009 and we are restating FY 2008 to zero OPEB liability. Mrs. Hurtubise said that the other items that decreased were the variable rate interest paid. The difference between the budget and what we actually paid is \$907,000 less. The unemployment insurance was \$691,000 less than what we had in the budget because FPUA is self insured we have been able to take advantage of that. Maintenance contracts were about \$379,000 under budget from what we amended back in August. She said even with the very tight year that we had, the amended budget was extremely tight and we were still able to be as absolutely frugal as we possibly could. When looking at the actuals for FY 2008 versus FY 2009, it is less even with the electric and natural gas purchases for resale. In years past we have had some wild swings, but for the first time in many years it has been relatively stable. We did a pretty good job in predicting what those were going to be.

Mrs. Cully said that she would like to thank staff in keeping this budget as low as possible.

A motion was made by Mr. Drummond and seconded by Mrs. Cully and unanimously carried to approve Resolution No. UA 2010-03 amending the budget of the Fort Pierce Utilities Authority of the City of Fort Pierce, Florida for the Fiscal Year beginning October 1, 2008 and ending September 30, 2009.

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Mr. Thiess said that at the last Board meeting, the Board requested a survey of our customers to go out with the billings. One was on the power cost adjustment whether they preferred the high winter low summer power cost scenario or the flat scenario. That survey will go out in the March bills. The other survey was on the meeting time as to whether they would like the meetings the way they are now, whether they want to have public hearings at night or all meetings at night, or that they did not care. Those are the four options. Mr. Thiess said that will go out the following month in April. Once we get those back within 30 days we should have all the input and will bring it back to the Board to make any decisions.

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Mr. Perri said that in light that we are still asking for public comments at the end of the meeting he made a motion that we move the comments at the beginning of the meeting.

A motion was made by Mr. Perri, seconded by Mr. Drummond, and unanimously approved to have the public comments at the beginning of the meeting.

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There being no further business, the meeting was adjourned.

ATTEST:

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SECRETARY

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CHAIRMAN