

**Utility Advisory Committee
Energy Roundtable III:
Discussion of Municipalization of City Utilities
Thursday, April 26, 2007
Broward County Main Library Auditorium
Fort Lauderdale, Florida**

Utility Advisory Committee (UAC) Members Present

Bunney Brenneman, Chair
Richard Barrett
L. Thomas Chancey
Bob Cole
Caldwell Cooper
Bernie Petreccia
Fred Stresau
Dr. Geri Udell
Nathaniel Wilkerson
Claire M. Vickery

City Representatives Present

Peter Partington, City Engineer
Kathleen Gunn, Asst. City Manager
Betty Crews, Engineering Department

Speakers & Panelists

Trevor Underwood, Author of Proposal to Municipalize & Underground FTL Utilities
Randy B. Knight, Asst. City Manager, Winter Park
Rod Macon
Bill Brier
Bob Bellemare

Moderator

Bunney Brenneman, UAC Chair

Ms. Brenneman welcomed those in attendance and introduced Ms. Gunn

Ms. Gunn thanked the UAC for putting the Roundtable together, reading a proclamation passed by the City Commission establishing the UAC and scheduling the Energy Roundtable. Ms. Gunn also thanked City staff involved with putting on the event, and introduced them.

Ms. Brenneman acknowledged and introduced the members of the UAC.

Ms. Brenneman introduced the topics to be discussed.

Presentation - Trevor Underwood, Proposal Author

Mr. Underwood gave a brief history of his involvement with proposing municipalization to the City and the steps taken to date to present his proposal for consideration.

- Advantages to residents of municipalization – competition versus franchised private monopolies
- A history of his involvement with the City and the proposed municipalization program

Highlights of Mr. Underwood's proposal were:

- Financial viability of the City which would help underwriting of a bond issue
- Renting of distribution network to reduce bond debt service
- Increased levels of control and management
- Economic benefits of having a secure, local distribution system
- Putting into place an unconstrained, competitive environment through public ownership
- Consensus by the City Commission to pursue municipalization options

Four options for the City for municipalization and undergrounding were as follows:

1. Do nothing - or begin piecemeal undergrounding of electrical distribution facilities while renewing the franchise agreement for an additional 30 years
2. Undergrounding local electrical and telecommunication facilities for the entire City without municipalization while renewing the FPL franchise for an additional 30 years
3. Municipalization of local electric distribution and telecommunication facilities with progressive undergrounding from the profits.
4. Municipalization and undergrounding of local electric and telecommunications distribution facilities with the introduction of competition – the least costly and most equitable option.

Option 4 would lead to a municipally-owned utility distribution authority, purchasing the FPL local distribution infrastructure, and building a new local, underground distribution system for electricity, telephone, internet access, and cable services, for rental to multiple competing suppliers. Electricity would be purchased in the wholesale market for sale to the residents by renting use of the municipal, local electric distribution system. Mr. Underwood indicated his research concluded that the entire system could

be financed by the utility municipal distribution authority issuing one taxable bond to purchase distribution assets, and a second non-taxable bond to be issued as required to fund the construction of the underground systems. Both bonds would be secured against the distribution system assets with guaranteed rental income. In addition, costs could be recovered through a rental charge as a percentage addition to the electricity rate, a cost deferral already implemented by FPL. The differential costs of undergrounding could be covered over the life cycle of the distribution facilities and the municipal distribution authority would pay a dividend to the City in place of existing franchise tax. Pricing reductions due to competition should more than cover the cost of undergrounding electric and telecommunication systems. There would be no increase to the City or residents either due to taxes or rate increases as the cost would effectively be paid out of the monopoly profits that otherwise would have been earned by FPL and the telecommunication providers over the course of the next 30 years.

Presentation - Randy B. Knight, City of Winter Park

Mr. Knight gave a history of Winter Park's conversion to municipalization.

- Reasons for converting – poor service
- Benefits – local control and accountability, profitability, improved reliability and customer service, community involvement
- Legal issues
- Costs of distribution systems, stranded costs
- Political difficulties
- Improvements – upgrades and replacement of old equipment, pole inspection program, undergrounding plan, automated meter reading system

Presentation – Rod Macon, FPL

Mr. Macon provided an overview of FPL pricing, service reliability, and their role in the community:

- FPL rates lower than the national average
- Cost breakdown – fuel and power generation, i.e., coal, nuclear, oil, natural gas
- Reliability factors – daily and preventative maintenance, advance technology
- Challenges – hurricanes, power outages, infrastructure damage, restoration efforts
- 2006 “Storm Secure” Plan – FPL's long term, comprehensive plan of action for improvements – the ability to weather and recover from storms, further improving day-to-day reliability which will include: hardening infrastructure, adoption of National Electric Service Code Extreme Wind Criteria for building

distribution systems serving critical infrastructure. This will mean a “more robust” system able to withstand wind gusts of up to 150 mph, upgrade of feeder lines to critical community facilities, pole inspections, increasing line clearing, and encouraging of underground facilities.

Mr. Macon discussed information regarding undergrounding efforts:

- 25% undergrounding conversion cost approval by the PSC
- Easement agreements allow for undergrounding in road rights-of-way instead of on private property

Currently completed and future improvement plans in the City for the Storm Secure Plan were demonstrated and outlined on a map, i.e., pole inspections and line clearing.

Mr. Macon concluded by stating that FPL employees living in the City contribute their time and money generously to agencies in the community such as the Front Porch Organization which is installing energy saving devices in home residences, participate in conservation programs and energy surveys paying rebates to help homeowners conserve energy, and support community organizations such as the Fort Lauderdale Museums of Science and Art and the United Way.

It was announced that Sheree Brown was not in attendance and would not be making a presentation.

Presentation – M. William Brier, Edison Electric Institute

Mr. Brier announced that the Edison Electric Institute is a national trade association representing investor-owned electric utilities including FPL, Progress Energy, Tico Energy, and Gulf Power in Florida.

Mr. Brier offered a “national perspective” on the issue of municipalization. He stated the continuation of the formation of utilities has changed, adding that FPL rates are very competitive when compared to municipal utilities.

Factors when considering takeover:

- Price per customer costs of acquisition
- 60% of the electrical bill being generation costs
- Payment of market rates for power
- Undergrounding – consultant studies determining proposed costs, alternatives

- Pressures to add to capacity; investments in generation, transmission, and distribution, looking at demand side of equation

Mr. Brier made the following points:

- “Municipalization, the purchase of the property itself, does nothing to change anything.” There will be the same price, supply, and reliability issues.
- Bonded indebtedness has to be considered when moving forward.
- There will be Florida geography challenges and it will be necessary to ensure the power supplier has the ability to provide economic and reliable power sources involving all different sources of generation.

Presentation – Robert C. Bellemare, Utilipoint International

Mr. Bellemare stated that Utilipoint is a consulting firm specializing in electric issues conducting rate-related analyses and working with regulatory commissions, investor-owned utilities, and municipal utilities. He outlined the municipalization process and a comparison of formation of municipal-owned versus investor-owned utilities (purchasing of equipment, building facilities and buying power). Mr. Bellemare also touched on key issues involved in a takeover, i.e., litigation/arbitration to determine the price including system inventory, feasibility studies, public votes, start-up issues, reconstruction of power lines at city limits, creating new facilities to “re-knit” the system, and determining peak loads.

Mr. Bellmore pointed out that municipalization will be a multi-year effort taking time, money, city resources, and commitment.

Question and Answer Session

[Questions and answers have been condensed or consolidated to avoid repetition of information previously provided. Highlights are provided as follows.]

- ✓ Mr. Underwood (question re: his thoughts on opposing points of view) -The owning of a municipal power company has nothing to do with owning power generation as power generation is a highly-competitive, wholesale market for electric power and there is no advantage for any municipality at this stage to go into power generation. Distribution only is under consideration. There also has been no discussion on the actual details of the proposal before the City which not only involves electricity, but telecommunications and the introduction of competition for these services. Failures occurred generally in small cities attempting to municipalize.
- ✓ Mr. Macon (question re: 40% distribution being underground and expectation of FPL for citizens to pay for 75% of cost of undergrounding and FPL still

- owns property) – The 40% mentioned is a system-wide average; the exact number in Fort Lauderdale is unknown. Seventy percent of new customers are served underground. The PSC has set out the formula for copayment of undergrounding facilities. Part of the formula existing prior to the 25% now allowed was a credit customers received against the cost of the underground system – the “equivalent overhead system” which is 25-40% of the cost. Between the two - the 25-40% always credited and the 25% investment now given - customers are paying one-half or less of the total cost of new undergrounding. FPL will continue to own it as they will continue responsibility for maintenance, operation, repair, and replacement.
- ✓ Mr. Underwood (question re: impact to Port Everglades and Fort Lauderdale/Hollywood Airport) – Any positive benefit to all customers and users of electricity and telecommunications, would inure also to the benefit of Port Everglades and the Airport. Ms. Brenneman clarified that the proposal is solely for the City of Fort Lauderdale and would not encompass the Port or the Airport as they are located outside City limits.
 - ✓ Mr. Brier (question re: omission of information for the Orlando utility, asking if any other city close in size to Fort Lauderdale has attempted municipalization of utilities) – He was unaware of any other project of this size being proposed in the US. It was his opinion that private ownership is moving in the opposite direction in other countries. Mr. Bellemare added that Orlando Utilities owns most of its own power generation facilities and are not analogous to the City’s proposal. He also stated that it will be necessary to look at facilities just outside the City limits to determine possible unanticipated effects of differing power sources.
 - ✓ Mr. Bellemare (question re: providing a comparison of “apples to apples” scenarios) – Other big cities have considered similar proposals such as San Francisco and Sacramento; however, the public voted against municipalization in those instances.
 - ✓ Mr. Knight commented that most of the failures were due to politics, not because it wasn’t a “good deal” and pointing out that utilities spend hundreds of thousands of dollars to oppose municipalization. He added that municipal utilities do not pay income, property, or sales tax, do not pay shareholders, and do not pay “huge executive salaries.”
 - ✓ Mr. Underwood (question re: rates actually covering expenses and if specific numbers were contained within the proposal) – The numbers are not precise, but were reviewed with an economist and are a basis for the calculation as a general formula. The RFP for a feasibility study was also discussed.
 - ✓ Mr. Macon (question re: reliability expectations) – Service reliability in the industry is measured by number of minutes the average customer is without power over the course of a year with FPL’s number being below the average (non-storm times).

- ✓ Mr. Knight (question re: if the takeover could be accomplished by the time the franchise agreement expires) – In Winter Park, the transition was not made prior to the expiration of their franchise agreement, with a ruling having been made by the court that they should continue on as though there were a franchise agreement still in effect. He believed Fort Lauderdale would have the benefit of the court's prior ruling. Cooperation of FPL and amount of litigation will determine whether the City is successful in implementing the project prior to the conclusion of the franchise agreement.
- ✓ Mr. Underwood (question re: rate regulation and surcharges) – One advantage of the proposal is there will be no surcharges resulting from a failure of the system as charged by FPL post-storm.
- ✓ Mr. Macon (question re: flooding and underground facilities) – Underground facilities may not fare well when there is flooding; it fares better during windstorms, but does not last as long as overhead and will need repair or replacement in 15-20 years.

There was also brief discussion regarding solar electric conversion and wind power generation.

Certificates of Appreciation were then awarded to the panelists

Reception

The event ended at 8:40 p.m.