



**BOARD OF COUNTY  
COMMISSIONERS  
INDIAN RIVER COUNTY, FLORIDA  
COMMISSION AGENDA**

**SPECIAL CALL MEETING  
MONDAY, OCTOBER 27, 2014 – 3:00 P.M.**

**County Commission Chamber  
Indian River County Administration Complex  
1801 27<sup>th</sup> Street, Building A  
Vero Beach, Florida, 32960-3388  
www.iregov.com**

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**COUNTY COMMISSIONERS**

**Peter D. O'Bryan, Chairman  
Wesley S. Davis, Vice Chairman  
Joseph E. Flescher  
Bob Solari  
Tim Zorc**

**District 4  
District 1  
District 2  
District 5  
District 3**

**Joseph A. Baird, County Administrator  
Dylan Reingold, County Attorney  
Jeffrey R. Smith, Clerk to the Board**

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- | <b>1.</b> | <b><u>CALL TO ORDER</u></b>         | <b><u>3:00 P.M.</u></b>                                                                                 | <b><u>PAGE</u></b> |
|-----------|-------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------|
| <b>2.</b> | <b><u>INVOCATION</u></b>            | Commissioner Wesley S. Davis, Vice Chairman                                                             |                    |
| <b>3.</b> | <b><u>PLEDGE OF ALLEGIANCE</u></b>  | Commissioner Joseph E. Flescher                                                                         |                    |
| <b>4.</b> | <b><u>COUNTY ATTORNEY ITEMS</u></b> |                                                                                                         |                    |
|           | <b>A.</b>                           | Update on the Status of Vero Beach Rate Reduction Efforts and<br>October 28, 2014, Joint Public Meeting | 1-9                |
| <b>5.</b> | <b><u>ADJOURNMENT</u></b>           |                                                                                                         |                    |

Except for those matters specifically exempted under the State Statute and Local Ordinance, the Board shall provide an opportunity for public comment prior to the undertaking by the Board of any action on the agenda, including those matters on the Consent Agenda. Public comment shall also be heard on any proposition which the Board is to take action which was either not on the Board agenda or distributed to the public prior to the commencement of the meeting.

Anyone who may wish to appeal any decision which may be made at this meeting will need to ensure that a verbatim record of the proceedings is made which includes the testimony and evidence upon which the appeal will be based.

Anyone who needs a special accommodation for this meeting may contact the County's Americans with Disabilities Act (ADA) Coordinator at (772) 226-1223 at least 48 hours in advance of meeting.

Anyone who needs special accommodation with a hearing aid for this meeting may contact the Board of County Commission Office at 772-226-1490 at least 20 hours in advance of the meeting.

The full agenda is available on line at the Indian River County Website at [www.ircgov.com](http://www.ircgov.com) The full agenda is also available for review in the Board of County Commission Office, the Indian River County Main Library, and the North County Library.

GBW

Gardner, Bist, Wiener,  
Bowden, Bush, Dee,  
LaVia & Wright, P.A.

ATTORNEYS AT LAW

Michael P. Bist  
Garvin B. Bowden\*\*  
Benjamin B. Bush  
David S. Dee  
Erin W. Duncan  
Charles R. Gardner  
John T. LaVia, III

1300 Thomaswood Drive  
Tallahassee, Florida 32308

www.gbwlegal.com

Telephone  
850-385-0070

Bruce I. Wiener\*\*  
Wendy Russell Wiener  
Bedford Wilder  
Robert Scheffel "Scheff" Wright

Facsimile  
850-385-5416

\*\*Board Certified Real Estate Lawyer

MEMORANDUM

October 20, 2014

TO: JAMES R. O'CONNOR, CITY MANAGER  
WAYNE R. COMENT, CITY ATTORNEY

FROM: ROBERT SCHEFFEL WRIGHT

SUBJECT: STATUS OF VERO BEACH RATE REDUCTION EFFORTS

This memorandum summarizes the status of our ongoing efforts to identify and implement rate reduction measures for all City of Vero Beach electric customers. The memo proceeds with a summary, including the status of our discussions with Orlando Utilities Commission ("OUC") for revised pricing under the City's 2008 Power Purchase Agreement ("PPA") with OUC, and then continues with a discussion of additional measures, including potential amounts of savings and timing considerations.

Summary

In summary, OUC senior management have agreed to recommend to the OUC Board reductions in the capacity payments under the 2008 PPA between OUC and the City by approximately \$7 million per year for the first three years following implementation of the revised PPA. Part of the revised arrangement includes the City purchasing peaking capacity from OUC for the remainder of the PPA term, which would enable the City to retire the City Power Plant. Together with additional savings that would be realized through reduced costs of compliance with North American Electric Reliability Corporation ("NERC") regulatory requirements and the corresponding reduction in the general fund transfer from electric rates (assuming that the transfer is re-set to be 6 percent of the new, lower revenues), these savings would - assuming that all other things remain equal and that they can be implemented promptly - enable the City to

reduce its bill for 1,000 kWh of Residential electric service by approximately \$10.00 per 1,000 kWh, i.e., from \$123.93 to \$113.93 at full implementation.

The key factors upon which prompt implementation depends are (1) agreement by FPL that the City's entering into the revised PPA with OUC would not constitute a breach of the City's agreements with FPL, (2) completion of any necessary transmission studies and upgrades to accommodate receipt of the peaking capacity from OUC, and (3) approval by OUC's Board and the City Council.

### Revised PPA with OUC

As previously stated before the City Council, Mr. O'Connor and I met several times with OUC senior management to discuss changes to the 2008 PPA. These discussions culminated last week in the preliminary agreement that OUC's management will recommend the proposed changes to their Governing Board, who are the Commissioners of the Orlando Utilities Commission. This is effectively a set of proposed terms in the nature of an agreement in principle, and remains dependent upon the development and execution of the definitive agreement, as well as on approval by the OUC Board and the Vero Beach City Council. The OUC senior management personnel with whom we met are optimistic that OUC's Board will approve the revised agreement, which will be proposed as an "Amended and Restated Agreement for Purchase and Sale of Electric Energy and Capacity, Gas Transportation Capacity and Asset Management Services Between The City of Vero Beach and Orlando Utilities Commission," thus replacing the existing 2008 PPA. (The new PPA will be referred to as the "Amended PPA" in the remainder of this memo.)

The "Discussion Points" (like a term sheet) and a table showing the pricing terms that would produce the \$7 million in annual savings for the first 3 years are attached to this memo. Key provisions include:

1. Reduction in Capacity Payments as shown on the table. The reductions start with discounts of approximately \$7 million per year for the first three years of the Amended PPA, and range between \$4.1 million and \$5.3 million per year for the remainder of the term.
2. Purchase by Vero Beach of 54 MW of peaking capacity to replace the capacity currently provided by the Vero Beach Power Plant. Pricing is as shown on the attached table. This purchase will enable the City to retire the Vero Beach Power Plant and reduce costs accordingly.

3. A "minimum take" of the base capacity of 85 MW.
4. OUC would have a one-time option to terminate the PPA, no earlier than 2020, with 2 years' notice. If OUC gives notice, OUC and the City would agree to negotiate in good faith toward a renewal and extension based on then-current market conditions, but neither party would be obligated to agree to such a renewal or extension.
5. OUC would have a one-time option to acquire Vero Beach's rights to the output of the St. Lucie Project through a power purchase agreement.
6. OUC would be allowed to permanently retain the gas transportation rights that are presently assigned to OUC under the 2008 PPA.

Additionally, although not reflected on the term sheet, OUC's senior management have indicated that they would be happy to receive and process employment applications from any City employees whose positions would be terminated upon retirement of the Power Plant.

#### Timing Considerations

The Capacity Payment reductions and the Peaking Capacity purchase-and-sale are a "package deal." Thus, these reductions can only be implemented when necessary transmission arrangements are in place to accommodate delivery of the peaking capacity from OUC to Vero Beach. The Electric Utilities Director is in regular communication with FPL regarding necessary transmission studies and potential upgrades. In a best-case scenario, i.e., if no upgrades were required to accommodate delivery of the peaking capacity, the City and OUC may be able to implement the Amended PPA in early 2015 (allowing for preparation and approval of the Amended PPA by the OUC Board and the Vero Beach City Council). If significant transmission upgrades are required, it is difficult to say when the Amended PPA pricing will be implemented.

#### Net Effect on City's Rates Compared to Other Florida Utilities

If and when the City is able to reduce its bill for 1,000 kWh of Residential service to \$113.93 per 1,000 kWh, the City's rates would be lower than those of Duke Energy Florida, Gulf Power Company, and both divisions of Florida Public Utilities Company, while remaining above those of FPL and Tampa Electric Company. (All comparisons here are on the basis of actual rates, excluding franchise fees and gross receipts taxes.) The City's rate for 1,000 kWh of Residential service would also be lower than 25 of the other

32 municipal utilities based on current rates - that is, the City's Residential rate would be 8<sup>th</sup> lowest of the 33 Florida municipal utilities. Current information on the rates charged by Florida's cooperatives is not readily available, but at \$113.93 per 1,000 kWh, the City's rate would be lower than all but one of Florida's electric cooperatives, based on their rates in effect as of December 31, 2012. (This is the most current information generally available, from the Florida Public Service Commission's report, Statistics of the Florida Electric Utility Industry, 2012. The 2013 edition of this publication is not yet available.)

#### Potential Additional Rate Reduction Measures

I have also attached a table showing potential additional rate reduction measures that the City may be able to implement, including potential savings amounts and timing of such measures.

Regarding retirement of the Vero Beach Power Plant, it is possible that there will be additional savings from the retirement in that the City would likely have to invest additional capital in the Plant to keep it running; however, these savings would be in comparison to the costs that the City would otherwise incur, so the result is that rates would likely be lower than they would otherwise have been if the Power Plant were to continue in operation, but we cannot say with certainty that the retirement would actually lower rates from current levels.

Regarding the option of financing Transmission & Distribution capital spending with debt, there are potential annual cost and rate reductions available from doing so. In simple arithmetic terms, replacing \$3 million of capital spending in a year with a year's worth of debt service (on the order of \$225,000-\$250,000 per year), would reduce the Electric Utility's required revenues by about \$2.7 million per year. One concept is that the City might pursue this course for 2-4 years, with a view toward returning to the current practice of financing T&D capital spending from current revenues in 2018 or 2019, when it is hoped that the debt service costs associated with the Stanton Project will be eliminated upon retirement of the existing Stanton Project debt. Those bonds are scheduled to be retired no later than October 1, 2019, and when we asked OUC whether they plan to undertake any significant capital spending measures on the Stanton Unit 1 Plant, they indicated that they do not. The Stanton Project debt service runs about \$8.7 million a year on average, and the City's share is 32.521 percent, or about \$2.8 million per year.

However, you and the City Council should note that both the City's Finance Commission and Utility Commission have recommended

against this course of action at least until the rate consultants complete their work. The scope of services for the new Rate Study includes the consultants reviewing the electric system's Five Year Capital Improvement Plan, evaluating the effects of alternative capital funding strategies on future revenue requirements, debt service, and rate sufficiency over the next five years, and assisting the City with developing appropriate capital funding strategies based on standard industry practices. The contract for the new Rate Study will be awarded in the near future, and Staff expects that Rate Study to be complete in March or April of 2015.

Other measures include potential reductions in customer service spending, technology improvements, and possible outsourcing of some functions. These measures will be addressed in an "Optimization Study" for which the City has issued a Request for Proposals. Tentatively, Staff believes that the Optimization Study should be complete in the May-June 2015 time frame.

Thank you again for the opportunity to be of service to the City of Vero Beach and your citizens. I look forward to seeing you again soon. If you have any questions, please call me any time.

Attachments

COPIES: CINDY LAWSON, FINANCE DIRECTOR  
TOM RICHARDS, ELECTRIC UTILITIES DIRECTOR

Calendar Year	OUC System Product			OUC Peaking
	Existing PPA	Alternative PPA	PPA Savings	Prod PPA (54.5 MW)

Dollars in Thousands

2014	\$ 14,143	\$ 14,143	\$ -	\$ -
2015	15,054	8,055	6,999	3,476
2016	16,182	9,191	6,991	3,640
2017	17,378	10,429	6,949	3,829
2018	18,478	13,157	5,321	4,019
2019	19,016	14,864	4,152	4,373
2020	19,375	15,200	4,175	4,727
2021	19,913	15,679	4,234	5,082
2022	20,452	16,164	4,288	5,438
2023	20,810	16,510	4,300	5,795
2024	21,349	17,004	4,345	5,825
2025	21,887	17,502	4,385	5,857
2026	22,425	18,006	4,419	5,889
2027	22,963	18,515	4,448	5,921
2028	23,501	19,030	4,471	5,955
2029	24,040	19,550	4,490	5,989

Monthly Rates (\$ / MW)

	OUC System Product			OUC Peaking Product	
	Existing PPA		Alternative PPA Trans <sup>1</sup>	Peaking	Peaking
	(Includes Trans)	Alternative PPA		Prod PPA	Prod Trans <sup>1</sup>
2014	\$ 12,673	\$ 12,673	\$ 1,566	\$ 3,500	\$ 1,566
2015	13,205	5,500	1,566	3,750	1,566
2016	13,760	6,250	1,566	4,000	1,566
2017	14,338	7,000	1,605	4,250	1,605
2018	14,950	9,000	1,645	4,500	1,645
2019	14,950	10,000	1,686	5,000	1,686
2020	14,950	10,000	1,728	5,500	1,728
2021	14,950	10,000	1,771	6,000	1,771
2022	14,950	10,000	1,816	6,500	1,816
2023 & Beyond	14,950	10,000	1,861	7,000	1,861

<sup>(1)</sup> Estimated transmission rates equal to present rate plus 2.5% annual increase starting in 2017



**Orlando Utilities Commission Discussion Points in  
Response to City of Vero Beach Request for Modification to PPA  
October 20, 2014**

<b>Source of Capacity/Energy:</b>	Remains as OUC system sale, for both the Base Capacity and the Peaking Capacity.
<b>Term:</b>	<p><u>Base Capacity:</u> Beginning on the Amendment Effective Date and continuing for the remaining term of the PPA, with the option of OUC to terminate no earlier than 2020 upon 2 years' prior written notice. If OUC gives notice of termination, OUC and Vero Beach will negotiate in good faith to reach agreement on new market based terms and conditions for renewal and extension; provided, that neither party is obligated to agree to any such extension.</p> <p><u>Peaking Capacity:</u> Beginning upon the Amendment Effective Date and continuing for the remaining term of the PPA, with the option of OUC to terminate no earlier than 2020, upon 2 years' prior written notice. If OUC gives notice of termination, OUC and Vero Beach will negotiate in good faith to reach agreement on new market based terms and conditions for renewal and extension; provided, that neither party is obligated to agree to any such extension.</p>
<b>Contract Capacity:</b>	<p><u>Base Capacity:</u> 85 MW minimum take requirement, with the capacity calculated as is currently provided in the PPA (substituting the Peaking Capacity for the Vero combined cycle generation).</p> <p><u>New Peaking Capacity:</u> 54 MW of peaking capacity based on a heat rate of 11,500 Btu/KWH.</p>
<b>Capacity Charges</b>	See Attachment A
<b>Energy Charge</b>	<p><u>Base Energy Charge:</u> Calculated as is currently in the PPA</p> <p><u>Peaking Energy Charge:</u></p> <p>The Hourly Energy Rate (\$/MWH) = [(Index + \$0.78) * 11.5] + \$5/MWH VOM</p> <p>Index = [Florida Zone 3 midpoint as posted in Platt's Gas Daily under Louisiana onshore-South divided by (1- FGT Fuel Surcharge effective for that month in the Delivery Period)] + FGT's FTS-1 Usage Rate effective for that month in the Delivery Period</p>
<b>Transmission Charge</b>	<p><u>Base Capacity:</u> OUC published tariff.</p> <p><u>Peaking Capacity:</u> OUC published tariff.</p>

**Orlando Utilities Commission Discussion Points in  
Response to City of Vero Beach Request for Modification to PPA  
October 20, 2014**

<b>Delivery Point for Capacity/Energy</b>	Same as in PPA currently for both Base Capacity and Peaking Capacity (OUC-FPL interconnection).
<b>Conditions of OUC Offer</b>	<ol style="list-style-type: none"> <li>1) Vero to retire the Vero Power Plant upon completion of any applicable transmission reliability upgrades, with the plant capacity removed from the PPA as an available resource for Vero as of the Amendment Effective Date.</li> <li>2) OUC is to have a one-time option on or before 1-1-2029 to acquire the rights and obligations of Vero's St. Lucie Entitlement (13.5 MW) based on an agreed power purchase agreement that is a cost pass-through pricing. Option would survive OUC early termination.</li> <li>3) Current natural gas transportation rights assigned to OUC would remain with OUC and would survive OUC early termination.</li> <li>4) Vero shall obtain network transmission service from FPL for Peaking Capacity from the Delivery Point to the load.</li> <li>5) OUC shall obtain firm transmission service over the OUC transmission system for the Peaking Capacity to the Delivery Point.</li> <li>6) Subject to negotiation and agreement on definitive contract terms and approval by the Board of OUC and the City of Vero Beach City Council.</li> </ol>

**VERO BEACH ELECTRIC UTILITY  
POTENTIAL RATE REDUCTION MEASURES**

<b>MEASURE</b>	<b>ACTUAL/POTENTIAL SAVINGS</b>	<b>TIMING</b>	<b>NECESSARY PRE-CONDITIONS</b>	<b>NOTES</b>
Amend OUC PPA-Base Capacity	Approx. \$7MM/year in Years 1-3, declining to \$4-4.5MM/year	Upon effectiveness of Amended PPA	1. FPL consent (no breach of FPL-COVB contract) 2. Transmission for Peaking Capacity in place	See attached revised capacity price table; Savings values represent actual savings (annual basis) vs. existing PPA capacity payments.
Retire COVB Power Plant and Replace with Peaking Capacity from OUC	Unknown, depending on otherwise applicable costs to keep COVBPP operational	Upon effectiveness of Amended PPA	Same as above.	Actual savings will depend on costs to keep COVBPP operational (or of procuring alternate capacity), also on timing of decommissioning COVBPP.
Reduced NERC Compliance Costs	\$150K/year	Upon effectiveness of Amended PPA	Same as above.	Savings result from reducing capacity of COVBPP.
Finance T&D Capital Expenditures with Debt	First year - \$2.7MM/year; average over first 5 years approx. \$1.5-2.0MM/year	Could be implemented starting in mid-2015; requires Council decision.	Preferable to have 2015 Rate Study completed first; Council decision.	Finance and Utility Commissions both recommended continue current practice until Rate Consultant completes 2015 Rate Study -- anticipated March-April 2015.
Other -- Outsourcing, cost/management optimization measures, potential customer service cost reductions, technology improvements, etc.	Unknown	After Optimization Study is complete (estimated to be by June 2015); requires Council decisions.	Optimization Study; Council decisions.	Actual savings will depend on actual measures identified by Optimization Study, and Council decisions regarding implementation.

- NOTES: 1. Reductions in costs will also result in reduced General Fund transfers based on 6% of revenues.  
2. Base Capacity price reductions are subject to COVB agreeing to Peaking Capacity purchase.  
3. As noted above, timing of actual rate decreases will depend on several factors, including sales growth and levels, completion and effectiveness of transmission arrangements for peaking capacity purchase from OUC, and others.