

MINUTES
ORLANDO UTILITIES COMMISSION

March 13, 2012

2:00 P.M.

Present:

COMMISSIONERS:

Maylen Dominguez
Dan Kirby, First Vice President
Craig McAllaster, Second Vice President
Linda Ferrone, Commissioner
Buddy Dyer, Mayor

Kenneth P. Ksionek, General Manager & Chief Executive Officer
Jan Aspuru, Clint Bullock, Al Frazier, Roseann Harrington, Byron Knibbs,
Denise Stalls, Rob Teegarden, Vice Presidents
John Hearn, Chief Financial Officer
Chip Merriam, Chief Legislative & Regulatory Compliance Officer
Greg Rodeghier, Chief Information Officer
W. Christopher Browder, Vice President & General Counsel
Nanci Schwartz, Recording Secretary

President Dominguez asked John Hearn to give the invocation, followed by the Pledge of Allegiance to the Flag. The Commission Meeting was called to order at 2:06 P.M.

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On a motion by Commissioner Kirby, seconded by Commissioner McAllaster and unanimously carried, the reading of the minutes of the January 31, 2012 Commission Meeting minutes was waived and the minutes were approved.

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Greg Rodeghier presented a 25-year service award to Bobby Nelson, Manager, Integrated & Customer Systems, Information Technology.

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Ken Ksionek stated that Kathryn Huseman, Esq. from Invensys Systems Management, an OUC vendor, requested to speak regarding Affirmative Item A-7, RFP #3115. Currently Invensys is the supplier of OUC's distributed controls

and information system at the Stanton Energy Center Units 1 and 2. Ms. Huseman stated that Invensys believes that their proposal best speaks to the stated key principles of OUC's business—affordability, reliability and environmental stewardship—and was the most responsive and responsible proposal. Invensys has been through OUC's formal bid protest process and would like to speak further regarding financial issues. Invensys concurs with the bid protest committee's determination that OUC's selection process had been followed. However, Ms. Huseman stated that there was no investigation into bias or the ability to provide Invensys with any of the technical comments regarding the proposal even though they had been requested.

Ms. Huseman stated that, as the supplier of OUC's current control system, Invensys' proposal leveraged the inherent benefit of the existing engineering and intellectual property that has been perfected over a period of 20 years. She informed the Board that the solution strategy reduces risk and internal cost and is a lower cost approach as evidenced by the \$877,000 lower base bid over the competitor and that Invensys offers two significantly lower cost alternatives which could further leverage the current investment and risk. She stated that Invensys' proposal offered three potential solution strategies, any of which could be implemented in a period of time from 1 to 10 years. She informed the Board that the approximate \$5 million cost of the project could be spent over many budget years rather than the 2-3 that are currently planned, and that the net present value of the Invensys solution is at least twice as favorable as the competitor's solution.

To Ms. Huseman's knowledge, the current Invensys system is operating reliably and supports the operating performance of the objectives of OUC for unit availability, efficiency, ramp rate and other key operating parameters. She stated that many of the existing system components are suitable for reuse, as part of a sustainable approach to the upgrade and they do not need to be removed. She stated that even if OUC chooses to replace the existing components, the Invensys bid remains lower than the competitor. Invensys believes OUC's technical team has not adequately considered the risk or the capital cost involved in this process, and stated that they were denied the opportunity to communicate directly with the technical evaluation team during the proposal process. Invensys would like to remain a contributing vendor to OUC and asks the Board to reconsider the approval of Affirmative Item A-7. Ms. Huseman thanked the Board for their time and consideration.

Mr. Ksionek explained the bid process to the Commissioners. The Executive Bid Review Committee, consisting of the General Counsel, the Vice President of Sustainable Services and the Director of Supply Chain Management, heard Invensys' appeal on the morning of March 13. He stated that there have been prior meetings before this and information regarding the proposals and bid process has been shared. The Executive Bid Review Committee confirmed that the OUC selection committee followed the procurement procedure and had queried the technical experts that evaluated the bids. After that analysis, the Executive Bid Review Committee recommendation is to go forward with the bid award to Emerson. Mr. Ksionek stated that the Invensys price was given the

highest rank in the rating to the benefit of Invensys, however Emerson was selected over Invensys primarily because Emerson's proposal presented the most comprehensive and best long-term solution for OUC; and Emerson's response met the greater intent of the overall specification.

Due to the substantial expenditure, Commissioner Kirby asked for confirmation that Invensys' response did not meet the intent of the overall specification in the same manner as Emerson, and that Emerson presented the best long-term solution for OUC. Mr. Ksionek confirmed and stated that pricing was one of seven major evaluation factors taken into consideration.

Commissioner Kirby asked when the work would start under this contract and if the work was time sensitive. Mr. Aspuru answered that the work would start with the Fall 2012 outage, but that acquisition would start immediately in order to be ready to install and implement the new system during the outage.

Chris Browder reiterated that the Executive Bid Review Committee is the final step in the OUC bid protest process. The original selection committee was involved at the time of the bid, and there was a subsequent meeting among the OUC procurement staff and Invensys where Invensys raised its questions and concerns regarding the bid evaluation. The Executive Bid Review Committee spoke to various technical experts and saw no indications of bias. Mr. Browder confirmed that under Florida law the OUC technical team has great discretion in evaluating the overall needs of OUC.

President Dominguez asked for confirmation that OUC's technical comments regarding the proposal would be provided to Invensys for their review. Mr. Browder stated affirmatively and indicated that the director of Supply Chain Management (SCM) would comply.

Commissioner Ferrone asked about the members of the selection team. Mr. Browder stated that he would need to acquire that information from SCM. He further stated that the normal selection process involves several representatives from the business unit to act as technical experts, as well as representatives from other areas to provide overall objectivity. Commissioner Ferrone also asked about historical knowledge as part of the selection considerations, and if there is an approach to make sure knowledge transfer occurs when transitioning from one vendor to another. Mr. Browder stated that OUC values current vendors but could not speak to the value placed on that knowledge in the selection process. Mr. Aspuru stated that Emerson provided a more comprehensive proposal, regardless of Invensys being the incumbent. Within the past 5-7 years, OUC has successfully implemented an Emerson Control System in the brine plant and it is performing well.

Commissioner McAllaster asked about the risk that would occur by selecting Emerson in contrast to Invensys. Mr. Aspuru stated that the selection committee believed that Emerson provided a system that would allow OUC to better comply with regulatory and compliance requirements. It was determined that the Emerson proposal had less risks than Invensys.

The Board stated that they are comfortable with OUC's recommendation and Affirmative Item A-7 will remain on the agenda for consideration.

President Dominguez presented the Affirmative Items for approval. On a motion by Commissioner McAllaster and seconded by Mayor Dyer, the Affirmative Items were approved as follows:

1. Ratification of the below spot fuel procurements to the low bidders in December 2011 in the aggregate amount of \$5,622,257.68 as follows:

NATURAL GAS PURCHASES:

Dec. 2011	BP Energy Company	\$ 805,183.50
Dec. 2011	Chevron Natural Gas	\$ 536,303.14
Dec. 2011	Enbridge Marketing, LP	\$ 129,259.61
Dec. 2011	Florida Gas Utility	\$ 158,807.90
Dec. 2011	Infinite Energy	\$ 522,441.43
Dec. 2011	Macquarie Cook Energy, LLC	\$1,153,364.38
Dec. 2011	National Energy & Trade	\$ 266,020.48
Dec. 2011	Peoples Gas	\$ 110,511.48
Dec. 2011	Southwestern Energy	\$ 141,957.57
Dec. 2011	Texla Energy Management, Inc.	\$ 549,297.55
Dec. 2011	Virginia Power Energy Marketing, Inc.	\$ 713,295.95

COAL PURCHASES:

Dec. 2011	Crimson Coal Corporation	\$ 535,814.69
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2. Ratification for the General Manager & CEO to execute two Long-Term Firm Point-to-Point Transmission Service Agreements between Florida Power & Light Company and OUC for the period of June 2016 through December 2023. Ratification of a Purchase Order to Florida Power & Light Company for up to 104 MW of firm transmission capacity across the Florida-Georgia transmission interface for the period of June 2016 through December 2023 in an amount not to exceed \$15,500,000;
3. Approval of a sole source Purchase Order to Power Costs, Inc. for software license updates to support the Florida Municipal Power Pool load forecast requirements and OUC production costing for a five-year period in the amount of \$135,185.80;
4. Approval of a sole source Purchase Order to Demco Specialties, Inc. to provide Ershigs fiberglass reinforced pipe repair services at the Stanton Energy Center for a five-year period in the amount of \$125,000;
5. Approval of RFP #3229 – Contract award to Velocity Dynamics, Inc., d/b/a Velodyne, the lowest, most responsive and responsible vendor, to provide equipment for two new flocculent addition systems for Stanton Energy Center Unit 1 and 2 in an amount not to exceed \$107,000;
6. Approval of RFP #3154 – Contract award to Fan Group, Inc., d/b/a Flaktwoods, the lowest, most responsive and responsible vendor, to supply the Stanton Energy Center Unit 1 induced draft fans in an

amount not to exceed \$1,858,000, subject to final contract negotiations and OUC legal review;

7. Approval of a Capital Expenditure Estimate for the Stanton Energy Center Unit 2 Distributed Controls and Information System Upgrade Project in the amount of \$6,250,000. Approval of RFP #3115 – Contract award to Emerson Process Management Power & Water Solutions, Inc., the most responsive and responsible vendor, to provide a new Distributed Controls Information System in an amount not to exceed \$5,750,000, subject to final contract negotiations and OUC legal review;
8. Approval of a sole source Purchase Order to Open Access Technology International, Inc. for five years of support and maintenance services required for Florida Municipal Power Pool's OATI webTrader Power Service Agreement in the amount of \$540,000. OUC will pay the total cost and be reimbursed by the other FMPP members;
9. Approval of RFP #3201 – Contract award to Southeast Power Corporation, the most responsive and responsible vendor, to provide overhead transmission line maintenance, construction and storm support services on a unit price basis for a three-year period in the amount not to exceed \$6,900,000;
10. Approval of RFP #3249 – Contract award to Thomas & Betts, the most responsive and responsible vendor, to provide steel transmission poles and anchor bolts required for the Lake Agnes to Lakeland McIntosh Segment of the Taft to Lakeland McIntosh Transmission Line Reconductor Project in the amount of \$1,400,000;
11. Approval of the Electric Distribution Construction Estimate for the rebuild of the overhead electric distribution system along Hickory Tree Road, located between Fertic Road and Deer Run Road in the St. Cloud service territory, in the amount of \$1,211,419.08;
12. Approval of the Electric Distribution Construction Estimate for the underground electric distribution system to serve the Randall Park residential community, located on Dowden Road, west of State Road 417 in the Orlando service territory, in the amount of \$746,919.14, with customer contributions in the amount of \$7,453.97;
13. Authorization for the General Manager & CEO to execute the five-year Second Amendment to the Contract for the Supply of Liquid Oxygen for Ozone Gas Production with Air Liquide Industrial U.S. LP, subject to final OUC legal review. Approval of a single source Purchase Order to Air Liquide Industrial U.S. LP to perform equipment upgrades at six Water Treatment Plants and continue providing LOX through September 30, 2013 in the amount of \$1,900,000;

14. Approval of RFP #3218 – Contract award to Niagara Conservation Corporation, the lowest, most responsive and responsible vendor, to provide conservation kits for a three-year period in the amount of \$120,000;
15. Approval of RFP #3210 – Contract award to Ferran Services and Contracting, Inc., the lowest, most responsive and responsible vendor, to provide weatherization, insulation and weather conservation services for the Efficiency Delivered Program for a three-year period in the amount of \$1,267,500;
16. Approval of an OUC initiated scope change and conforming Change Order No. 1 to Black & Veatch Corporation in the amount of \$360,000 to utilize the Accelerated Corporate Transformation process to integrate the Corporate Strategic Plan into the budget and operations, increasing the total Purchase Order amount to \$450,000;
17. Ratification of an OUC initiated scope change and conforming Change Order No. 1 to SI Goldman Company Inc. in the amount of \$61,773 to repair and replace the underground reinforced concrete pipes that connect the Stanton Energy Center stormwater ponds, increasing the total Purchase Order amount to \$136,773; and
18. Approval of RFP #3230 – Contract awards to BrightStar Partners, Inc., The Revere Group and Yash Technologies Inc., the most responsive and responsible vendors, to provide consulting and reporting services to support Business Intelligence initiatives in the aggregate amount of \$150,000 for the period March 19, 2012 through February 28, 2013.

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Commissioner Kirby reported that the Finance Committee held its regular meeting on February 16, 2012. The Committee was briefed regarding transmission options for future nuclear generation opportunities. The Committee reviewed the 2012 Annual Work Plan, the quarterly management reports and an update on the 2011 C and 2011 D financing transactions.

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Commissioner Ferrone reported that the Audit Committee held its regular meeting on March 6, 2012. Internal Audit activities were presented to the Committee including a summary of the recently issued audit reports and an overview of the 2012 Audit Work Plan. Financial performance for the four month period year ending January 31, 2012 was presented with Income before contributions \$16 million, \$0.1 million lower than budget. In addition, financial pro-forma information was presented with Income before contributions projected to be in-line with the annual budget of \$70.4 million.

External Audit activities included an overview of the upcoming Defined Benefit and Other Post-Employment Benefit plan audits. The audits are scheduled to be

presented to the Audit Committee at the June 5, 2012 meeting with fieldwork starting for these audits in April.

The Audit Committee considered extending the external audit services contract with Ernst & Young which ends in July 2012. The contract would be extended for three years with two one-year optional extensions. Fees associated with this agreement extension would be \$250,000 for 2012, with an annual 2 percent escalation thereafter.

The Audit Committee recommends that the Board approve an extension of the audit service contract with Ernst & Young under these terms. On motion by Commissioner Ferrone and seconded by Mayor Dyer, PRES-2a was approved as follows:

PRES-2a: Approval of a single source Purchase Order to Ernst & Young to provide external auditing services for a three-year period in the amount of \$800,000, pending OUC legal review.

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John Hearn stated that the February financials were recently closed. OUC is on target for budgeted net income. Electric retail revenue were approximately \$8 million under budget for the first five months of the year. Operating expenses are approximately \$7 million under budget.

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Ms. Virginia Lelansky, an OUC customer, spoke to the Board about a recent adjustment to her water bill due to a water leak in her home and expressed concern regarding OUC's methodology in determining the adjustment amount.

Mayor Dyer asked if there was a pricing policy for customers who have water leaks in their homes. Al Frazier explained that OUC has a tiered water rate for increasing consumption. When a customer has a leak in their home, the lowest tier of the irrigation water rates is used to calculate the leak adjustment credit. OUC has already applied an adjustment to Ms. Lelansky's account and she has accepted an appointment with the appeal committee.

Commissioner McAllaster asked about the status of the investigation. Mr. Frazier replied that this was an irrigation leak and on the customer's side of the meter.

President Dominguez asked for confirmation on the water rate of the customer. Mr. Frazier replied that the non-conservation rate on the irrigation side is \$1.589 per kgal.

Commissioner McAllaster asked if OUC has a system for computers to pick up unusual usage and flag them as possible leaks. Mr. Frazier stated that this depends on seasonal issues and usage and leaks are not always caught. There are Hi/Lo tables that will indicate whether there is an unusual usage issue and customer contact would be made.

Commissioner Kirby asked for clarification that the customer would be charged for her water leak at the non-conservation rate and Mr. Frazier responded affirmatively. He requested a follow-up report on the situation.

Commissioner Ferrone stated her concern that the customer was confused or unhappy with the results of her interactions with OUC. President Dominguez stated there was no indication in the customer's presentation that suggested she was not treated fairly; however, the customer wanted to make sure that her case was heard by policymakers.

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President Dominguez read a Proclamation into the record declaring April to be Water Conservation Month at OUC.

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Mr. Ksionek asked Kevin Noonan to provide a presentation on the Water Conservation Plan. Mr. Noonan stated that additional water supply will be needed by 2021. There are no regulatory requirements for water usage; however, conservation is strongly encouraged by the Water Management Districts. OUC's efforts are included as part of the Consumptive Use Permit reporting process.

OUC's Water Resource Planning Strategy includes pursuing maximum groundwater allocation, enhancing reclaimed water utilization, optimizing timing and participation in alternative water supply options and increasing conservation to highest level of sustainable water savings. Programs selected for implementation will be the most efficient programs at the lowest cost as well as programs that can be implemented for less than or equal to the cost of the next alternative water supply. Certain programs may be selected to raise public awareness and extend public goodwill. Measures were valued based on their ability to help OUC avoid supply-side costs over the life of the measure. Over 100 conservation measures were evaluated, and only those deemed cost effective were considered for implementation.

President Dominguez asked if the water conservation efforts would be a part of the Efficiency Delivered Program, and Mr. Noonan responded affirmatively.

Commissioner McAllaster asked what impact reclaimed water has on the water usage percentages for single- versus multi-family homes. Mr. Noonan stated that he could not speculate on the exact impact, but that irrigation is over half of the water consumption of a typical single-family home. He will follow-up on this information for the Commissioners.

President Dominguez asked how the remaining 50 percent of water usage is divided among single-family homes. Mr. Noonan stated that indoor water usage is spread equally among cooking, drinking and bathing.

President Dominguez asked if the effectiveness of certain water conservation programs in other areas was taken into consideration as part of OUC's analysis. Mr. Noonan stated that the programs considered have been used nationally.

Mayor Dyer asked about OUC's cistern program. Mr. Noonan replied that OUC measures the size of rainwater cistern pools and ensures that water is used for irrigation purposes on the property.

Commissioner Ferrone asked about the effectiveness of these programs in enrolling customers. Mr. Noonan replied that the previous toilet replacement program was active for approximately nine months. During that time, approximately 900 toilets were replaced. The new program will be processed as a normal rebate, which should equate to more customers using the program. There is little customer participation for the cistern program, except in new construction, but OUC will continue to offer the rebate to encourage smart water usage.

OUC will offer residential rebates, including Florida-Friendly Landscaping and Irrigation and Florida Water Star. The Efficiency Delivered Program will include water conservation measures such as the replacement of up to two toilets and irrigation repairs. Mr. Noonan discussed OUC's Water Education and Enforcement Program. OUC will also offer incentives to commercial customers using conservation measures such as air-cooled ice machines.

Mr. Noonan explained how these different water conservation programs will impact OUC's water and cost savings. Commissioner Ferrone asked how these numbers were estimated, in regards to customer participation. Mr. Noonan replied that penetration estimates were performed for residential and commercial customers in each area of the conservation program. Future evaluations will allow OUC to adjust and modify rebates and target marketing efforts.

Commissioner McAllaster stated that the rebate for the Florida Friendly Landscaping seemed small in comparison to the effort and cost expended by the customer. He encouraged OUC to investigate irrigation and landscaping programs used in other areas. Commissioner Kirby and President Dominguez concurred. Mr. Noonan stated that his team will continue to analyze the effectiveness of this program.

Commissioner Kirby asked how many Florida Water Star homes have been certified in OUC's service territory. Mr. Noonan replied that very few homes have been certified over the past several years, approximately less than ten per year due to the lack of new construction. President Dominguez asked if Water Star certification required an associated cost. Mr. Noonan replied that the program is run by the Water Management Districts and that other than the installations, there was no additional cost.

Commissioner McAllaster asked about the budget for the Efficiency Delivered Program, which begins on April 1, 2012. Mr. Noonan replied that OUC is targeting approximately 500 homes for the first year, for a total contribution amount of \$700-\$800 per home. All proposed water rebates will be effective on August 1, 2012. OUC will conduct a cost study for its conservation programs every two to three years. President Dominguez stated concerns that OUC reaches an equal number of homes on each income tier for the Efficiency

Delivered Program. Mr. Noonan stated that OUC is mainly targeted homes constructed prior to 1979.

Commissioner Kirby stated that rain sensors should be included as part of irrigation repairs. Mr. Noonan replied that rain sensors are relatively low cost items to install and are short-lived, which is why they are not included in the program. Commissioner Kirby also stated that the program evaluations should be more frequent. Commissioner Ferrone concurred.

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Mr. Ksionek asked Chip Merriam to provide a legislative update. Mr. Merriam gave an update on Executive Branch activities. The Presidential Budget was released, placing a 28 percent cap on municipal bonds. The Environmental Protection Agency is moving forward on "Tier 3" fuel standards, further reducing sulphur in gasoline. The EPA estimates the cost impact to be one cent per gallon. The Office of Management and Budget (OMB) is reviewing National Ambient Air Quality Standards (NAAQS) for NO₂ and SO₂. Vendors will not be able to guarantee these below-industry standards, creating more risk for power plants. This raises the issue of technology keeping up with rulemaking. Another rule, only focused on the State of Florida, is the Numeric Nutrient Criteria (NNC).

In the Legislative Branch, recent polls indicate that Congress has a 13 percent approval rating. Senator Bingaman has introduced a new Clean Energy Standard Bill. Secretary Salazar has chosen to try and not permit the use of federal lands for fracking, raising the question of how this will impact natural gas prices. The Transportation Reauthorization Bill expires March 31. Senator McCain introduced a new cybersecurity bill.

In the State of Florida, 1,444 bills were filed in the Senate and less than 52 may become law. Currently, re-apportionment is under review. The Assault on Utility Workers bill did not pass. There were several pieces of energy policy legislation, including nuclear energy, an energy conservation program, copper and metal theft, reuse designation, Minimum Flows and Levels (MFL) Water Management District legislation and ethanol removal legislation. Mr. Merriam discussed the Aaron Edwards Claims Bill, which impacts sovereign immunity protection. Mayor Dyer stated that he cannot remember a claims bill that did not have the government agreeing to a settlement in excess of the sovereign immunity amount.

Mr. Merriam discussed activities in the Judicial Branch, which includes a challenge to tailoring rule for greenhouse gas permitting. The appellate court judges are indicating that they will not change the endangerment finding in the EPA Cross-State Air Pollution Rule (CSAPR). Because of CSAPR, GenOn has announced that it is closing eight power plants.

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Mr. Ksionek thanked John Hearn for 25-years of service.

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Commissioner Ferrone congratulated John Hearn for his 25-year service award. She stated that she is excited by the water conservation efforts presented at the meeting. She encouraged everyone to vote in the Florida primary.

Commissioner Kirby stated that he and Mayor Dyer attended Orange County's Black History Month celebration. OUC was recognized at the meeting. He stressed the importance of being clear and responsive to customers.

Commissioner McAllaster stated that he toured the Indian River Plant on February 17, 2012. He was impressed with the cleanliness of the facility and the amount of surplus equipment. He stated that OUC needs to continue to look for innovative and environmentally sensitive ways to generate more revenue. He appreciated OUC's recommendations regarding the bid challenge and stated that OUC has an efficient system of reviewing grievances. He also stated that OUC needs to be proactive regarding abnormalities in customer usage, and notify customers of potential issues such as water leaks.

Mayor Dyer stated that gave the State of the City address on February 29, 2012. It was given at the medical school at the UCF College of Medicine and highlighted the business and residential activities occurring in Lake Nona.

President Dominguez reiterated her excitement about Water Conservation Month. She stated that OUC should strive to work ahead of energy legislation. She stated that it is important for OUC to relate to its customers and listen to customer suggestions, and customer requests should have the highest priority. She praised Orlando's growth in recent years.

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President Dominguez adjourned the meeting at 3:45 P.M.

President

Secretary