

MINUTES
ORLANDO UTILITIES COMMISSION
July 22, 2014
2:40 P.M.

Present:

COMMISSIONERS:

Dan Kirby, President
Linda Ferrone, First Vice President
Maylen Dominguez, Second Vice President
Gregory D. Lee, Commissioner
Buddy Dyer, Mayor

Kenneth P. Ksionek, General Manager & Chief Executive Officer
Jan Aspuru, Clint Bullock, Roseann Harrington, Byron Knibbs, Chip Merriam and
Rob Teegarden, Vice Presidents
Jerry Sullivan, Vice President & Chief Information Officer
John H. Hearn, Vice President & Chief Financial Officer
W. Christopher Browder, Vice President & General Counsel
Nanci Schwartz, Recording Secretary

President Kirby asked German Romero to give the invocation, followed by the Pledge of Allegiance to the Flag. The Commission Meeting was called to order at 2:45 P.M.

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On a motion by Commissioner Ferrone, seconded by Commissioner Dominguez and unanimously carried, the reading of the minutes of the May 13, 2014 Commission Meeting was waived and the minutes were approved. President Kirby asked that additional comments be added to the June 10, 2014 Sustainability Workshop Minutes. On a motion by Commissioner Ferrone, seconded by Commissioner Dominguez and unanimously carried, the reading of the minutes of the June 10, 2014 Sustainability Workshop was waived and the minutes were approved as amended.

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Chris Browder presented a 35-year service award to George Hayes, Sr. Technical Trainer, Office of the General Counsel.

Clint Bullock presented a 25-year service award to Ken Zambito, Director, Transmission Construction & Maintenance, Electric and Water Delivery.

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Mr. Ksionek asked Jan Aspuru to provide a presentation on Affirmative Item A-7 regarding the Supplemental Labor Services, Clint Bullock to provide a presentation on Affirmative Item A-10 regarding the Overhead Transmission Line Construction and Maintenance and Storm Support Services, and Chris Browder to provide a presentation on Affirmative Item A-16 regarding the Temporary Staffing Support and Management Services. Mr. Ksionek stated that the three Agenda Items represent approximately \$15 million in supplemental labor costs on an annual basis, in addition to direct payroll costs of approximately \$70 million.

Mr. Aspuru stated that supplemental labor is an essential part of power plant operations, providing a costs savings of approximately 40 percent. It allows OUC to supplement the technical workforce during outages without increasing full-time employees, as well as provides for an assessment of potential candidates for future employment.

Commissioner Ferrone asked if permanent staffing is evaluated on an annual basis in regards to the workload. Mr. Aspuru replied affirmatively.

Commissioner Dominguez asked how often contract employees are brought on as permanent employees. Mr. Aspuru replied that he does not have an exact number, but confirmed that several permanent employees that came to OUC through supplemental labor services.

Mr. Bullock stated that RFP #3672 involved more than just labor, but also included equipment, materials and trucks needed to provide these services. OUC has historically gone out to bid for this type of maintenance work. OUC wanted to combine the maintenance services with the new line work as well as the foundation work. Vendors could bid on different types of services, or submit a proposal for the entire package. OUC utilizes approximately 30 percent permanent workforce and 70 percent supplemental labor to perform these services. OUC has worked with Southeast Power in the past and their unit price was 5 percent lower than the second-highest rated vendor.

Commissioner Dominguez asked if investor-owned utilities (IOUs) have similar outsourcing practices. Mr. Bullock replied that larger IOUs are able to utilize a higher percentage of permanent workers by rotating them to many different projects and areas.

Mr. Browder stated that the Human Resources Department manages the Agile1 Purchase Order, which is utilized by various departments for many different projects. He described the centralized process and services provided by Agile1, including rate negotiation. OUC currently works with 24 vendors through the Purchase Order. He explained the annual breakdown for Agile1 costs, as well as the costs per project and Business Unit. The majority of the current project costs

are designated for Information Technology. Thirty-seven percent of the Purchase Order costs have gone to minority and women-owned businesses.

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

1. Ratification of the fuel procurements to the low bidders in March and April 2014 in the aggregate amount \$30,739,534.57 as follows:

NATURAL GAS PURCHASES:

Mar. 2014	BP Energy	\$ 362,900.00
Mar. 2014	EDF Trading (Formerly Eagle Energy)	\$ 314,117.05
Mar. 2014	Enbridge Marketing, LP	\$ 502,147.09
Mar. 2014	Florida Gas Utility	\$ 324,675.00
Mar. 2014	Infinite Energy	\$ 247,420.70
Mar. 2014	Macquarie Cook Energy, LLC	\$2,848,384.34
Mar. 2014	Shell Energy	\$ 173,328.25
Mar. 2014	Southwestern Energy	\$ 165,664.00
Mar. 2014	Tenaska Marketing Ventures	\$ 956,210.84
Mar. 2014	Texla Energy Management, Inc.	\$ 339,899.33
Apr. 2014	BP Energy	\$ 662,200.00
Apr. 2014	EDF Trading (Formerly Eagle Energy)	\$1,945,247.93
Apr. 2014	Enbridge Marketing, LP	\$ 744,804.93
Apr. 2014	Energy America	\$ 594,628.50
Apr. 2014	Infinite Energy	\$ 287,640.00
Apr. 2014	Macquarie Cook Energy, LLC	\$2,178,731.81
Apr. 2014	Shell Energy	\$ 856,244.62
Apr. 2014	Southwestern Energy	\$1,417,484.02
Apr. 2014	Tenaska Marketing Ventures	\$1,336,545.07
Apr. 2014	Texla Energy Management, Inc.	\$1,480,907.20

COAL PURCHASES:

Mar. 2014	Crimson Coal Corporation	\$4,331,002.11
Mar. 2014	James River Coal, Inc.	\$2,280,076.80
Mar. 2014	Gainesville Regional Utilities	\$ 847,484.00
Mar. 2014	MR Coal Marketing & Trading, LLC	\$1,433,393.70
Apr. 2014	Crimson Coal Corporation	\$1,502,718.86
Apr. 2014	Foresight Coal Sales, LLC	\$1,068,532.92
Apr. 2014	James River Coal, Inc.	\$ 786,870.50
Apr. 2014	MR Coal Marketing & Trading, LLC	\$ 750,275.00

2. Ratification of a Capital Expenditure Estimate for the Stanton Energy Center Unit 2 Selective Catalytic Reduction Regeneration Project in the amount of \$2,893,804. Ratification of RFP #3680 - Contract award to STEAG Energy Services, LLC, the lowest, most responsive and responsible vendor, to provide catalyst regeneration services for the Stanton Energy Center Unit 2 Selective Catalytic Reduction reactor in the amount of \$928,804, pending final contract negotiations and OUC legal review;

3. Ratification of Purchase Orders to Rail Trusts Equipment, Inc.; CIT; CitiRail Inc.; GE Capital Rail Services; Macquarie Rail; Argos USA; Cogentrix Energy Power Management LLC; Cedar Bay Generating Company Limited Partnership; and Freightcar America Inc. for short-term leases of coal unit trains based on availability and price through Fiscal Year 2016 in the aggregate amount of \$2,900,000;
4. Approval of an OUC initiated scope change and conforming Change Order No. 1 to Thielsch Engineering, Inc. in the amount of \$134,255 for the mapping and recommended inspections, repairs and replacements to the associated equipment for Stanton Energy Center Unit B Heat Recovery Steam Generators and High Energy Piping Reliability Program, increasing the total Purchase Order amount to \$186,255. The contract term is ten years;
5. Approval of an OUC initiated scope change and conforming Change Order No. 2 to Ronan Engineering Company in the amount of \$200,000 to purchase and install eleven density meters at the Stanton Energy Center, increasing the total Purchase Order amount to \$344,995.81, pending final contract negotiations and OUC legal review;
6. Approval of Change Request No. 2 to the Capital Expenditure Estimate for the Stanton Energy Center Zero Liquid Discharge Site Process and Water Management Project in the amount of \$428,944, increasing the total project cost to \$619,693. Approval of an OUC initiated scope change and conforming Change Order No. 1 to WorleyParsons Group, Inc. to provide engineering services for Phase 2 of the Zero Liquid Discharge Site Process and Water Management Project in the amount of \$388,944, increasing the total Purchase Order amount to \$473,880;
7. Approval of RFP #3708 - Contract award to Austin Maintenance & Construction, Inc., the lowest, most responsive and responsible vendor, to provide supplemental labor services within the Electric and Water Production Business Unit in the amount of \$15,274,626.75, pending final contract negotiations and OUC legal review. The contract term is three years with two one-year renewal options;
8. Approval of a single source Purchase Order to Black & Veatch Corporation to perform the North American Electric Reliability Corporation Critical Infrastructure Protection Version 5 study in the amount of \$142,000, pending final contract negotiations and OUC legal review;

9. Approval of Change Request No. 1 to the Substation Capital Expenditure Estimate for engineering, procurement and construction support necessary to complete the Airport Industrial Park Substation C Unit Addition Project in the amount of \$4,105,000, increasing the total project cost to \$4,200,000. Approval of a an OUC initiated scope change and conforming Change Order No.1 to Black & Veatch in the amount of \$385,000 to provide design engineering and construction management services, increasing the total Purchase Order amount to \$480,000. Approval of Purchase Orders to Central Electric Manufacturing Company for a 15kV metal-clad switchgear unit, bus duct, field installation services and spare parts in the amount of \$790,000; and a sole source Purchase Order to Powell Electrical Systems, Inc. to retrofit three vacuum breakers on two existing Powell metal-clad switchgears in the amount of \$260,675;
10. Approval of RFP #3672 - Contract award to Southeast Power Corporation, the most responsive and responsible vendor, to provide overhead transmission line construction, maintenance and storm support services in the amount of \$19,000,000. The contract term is three years with two one-year renewal options;
11. Ratification of a sole source Purchase Order to Hewlett Packard Company for the purchase of processor hardware and software required for the Outage Management System and Computer Aided Dispatch Upgrade Project in the amount of \$350,000, which includes maintenance and support through June 2018. Ratification of a sole source Purchase Order to Oracle Corporation for the purchase of Oracle database licenses required for the Outage Management System and Computer Aided Dispatch Upgrade Project in the amount of \$225,456, which includes maintenance and support through May 2015;
12. Approval of a sole source Purchase Order to Interior Contract Services, Inc. for the purchase of office furniture, demountable wall systems and space optimization services through March 1, 2016, in the amount of \$600,000;
13. Approval is requested of an OUC initiated scope change and conforming Change Order No. 1 to Arrow Pavement Services, Inc. and Meyers Asphalt Services, LLC in the aggregate amount of \$80,000 to continue providing repair, striping and sealing of access roads and parking areas, increasing the total Purchase Order amounts to \$172,181;

14. Approval of RFP #3698 - Contract award to Electric Power Systems, Inc., the lowest, most responsive and responsible vendor, for switchgear inspection, testing, maintenance and thermographic surveys in the amount of \$200,168. The contract term is three years with two one-year renewal options;
15. Adoption of the updates and authorization for the General Manager & CEO to execute the restated Defined Benefit Pension Plan, the Hybrid Retirement Program and the Summary Plan Description documents; and
16. Approval of an OUC initiated scope change and conforming Change Order No. 3 to Agile1 in the amount of \$4,600,000 to continue providing temporary staffing support and management services through December 2015, increasing the total Purchase Order amount to \$14,895,000.

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Mr. Ksionek stressed the importance of maintaining competitive rates as discussed in the prior Budget Workshop where the recommended action was no electric rate increase, which is foundational to attracting new businesses to Central Florida. He asked Roseann Harrington to provide a presentation on New Business Item NB-1 regarding the Economic Development Rider Rate Schedule. She explained OUC's mission to recruit, retain and expand business in OUC service territory, and the vision to advance OUC as the preferred electric and water utility provider willing to go above and beyond to partner with commercial customers to help grow their business and utilize sustainable solutions. OUC has seven goals in economic development, and has currently accomplished the first three. The remaining four goals are in progress, including Commission adoption of two Economic Development riders. OUC evaluated itself against other utilities to determine how to develop its programs. Aligning with the State of Florida incentives was also very important for these programs. Ms. Harrington described in detail OUC's proposed Economic Development Rider, designed to create jobs, and the Commercial/Industrial Service Rider, designed to increase load.

Mayor Dyer asked for clarification regarding the Qualified Target Industries Tax Refund (QTI) and the number of jobs created. Ms. Harrington replied that OUC set the minimum number of jobs as 25, and is looking to target new businesses as opposed to expanding existing businesses. Mayor Dyer suggested not providing QTI if it is not already provided by the state or local government.

Commissioner Dominguez asked about the comparisons to other utilities. Ms. Harrington responded that OUC is in line with what other utilities are providing.

Commissioner Ferrone asked for elaboration on how this program will help bring the “total solution” to new customers. Ms. Harrington replied that the riders were important for OUC to compare and compete with other utilities. OUC brings in teams to review lighting, chilled water and sustainability opportunities at new locations.

Mayor Dyer asked what OUC offers in terms of solar panels. Byron Knibbs stated that OUC identifies the types of facilities being built and works with the construction team to incorporate solar panels. OUC also works with businesses on solar farms and other sustainability opportunities. OUC both provides solar panels for customer use, and offers rebates for customers who utilize their own solar panels and equipment.

President Kirby stressed the importance of job creation and benefits to the rate payer. Ms. Harrington concurred and stated that the overall goal of this program is to attract new business to OUC’s service territory in order to benefit all of the customers. President Kirby asked if OUC’s minimum capacity might change based on the wraparound services being adopted, i.e. if OUC would offer more incentive to customers who utilize more services, such as chilled water and lighting. Mr. Hearn replied that OUC would offer a package of services, and stated that there is flexibility to offer different packages for each customer, based on the two Economic Development Riders up for adoption.

On motion by Commissioner Lee, seconded by Mayor Dyer, New Business Item 1 was adopted and accepted as follows:

NB-1 Adoption of the new Economic Development Rider Rate Schedule and Commercial/Industrial Service Rider Rate Schedule, both effective August 1, 2014, pending Florida Public Service Commission review.

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Commissioner Ferrone reported that the Finance Committee held its regular meeting on May 29, 2014. The Committee reviewed the quarterly management reports. In addition, the Committee discussed adding an outside member to the Energy Risk Management Oversight Committee. Staff was asked to develop criteria for membership, set a term length and offer recommendations at the next Finance Committee meeting. The committee also received updates on the status of new money needs, the upcoming request for proposals for bond and disclosure counsel and updates on both the rating agency visits and the JP Morgan investor conference. OUC received positive feedback from all three rating agencies.

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Commissioner Dominguez reported that the Audit Committee conducted its regular meeting on June 4, 2014. Internal Audit activities were presented to the Audit Committee, including an overview of two recently completed Internal Audit

reports. The annual review of the Audit Committee Charter was completed and no changes are recommended.

The results of the April 2014 financial statement were presented. Income before contributions for the seven months ended April 30, 2014 was \$38.7 million, \$7.1 million higher than budget, and total assets were \$3.2 billion. In addition, the Committee reviewed the Fiscal Year 2014 Proforma. Income before contributions is expected to be \$84.3 million, or \$3.2 million higher than the original budget.

Additionally, the Audit Committee reviewed and approved an accounting regulatory action for the deferral and amortization of previously incurred underwriter's discount costs over a 10-year period. This action ensures that the costs are recovered in the rates consistent with OUC's financial planning model. The Audit Committee recommends approval of the Regulatory Action.

On a motion by Commissioner Dominguez and seconded by Commissioner Ferrone, PRES-2a was approved as follows:

PRES-2a Approval to recognize a regulatory asset for \$5 million of unamortized underwriter's discount costs as of September 30, 2013, and systematically recognize these costs over a ten-year period, beginning in Fiscal Year 2014.

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John Hearn stated that as of June 30, 2014, OUC's Income before contributions was \$6 million ahead of budget. This has been mainly driven by OUC's wholesale transactions, which are approximately \$6.8 million ahead of budget. Retail electric and water sales are slightly behind budget, while chilled water and lighting sales are slightly ahead of budget.

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Mr. Ksionek asked Jerry Sullivan to provide an update on the state of cyber security at OUC. Mr. Sullivan stated that cyber attacks happen daily and are unrelenting and evolving. Several attacks have penetrated OUC's network via email and legitimate websites. In 2013 and 2014, millions of attempts were made from foreign countries, and OUC now blocks most foreign I.P. addresses. Other utilities are receiving similar brute force and malware attacks. However, at this point OUC customers have not been affected by these attacks.

OUC's defenses include network security, malware prevention and endpoint protection. Information Technology staff fights viruses & network attacks and initiate post cleanup activities and, when necessary, staff is diverted from operational and project work. OUC has increased cyber security over the past three years and is working to meet and anticipate these security threats in the future.

Commissioner Ferrone asked how OUC staff can help prevent attacks, and stressed the importance of conveying security threats and initiatives to staff. Mr. Sullivan stated that people and processes will help increase security, and should act as the first line of defense.

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Mr. Ksionek asked Chip Merriam to present an Environmental Protection Agency (EPA) Regulatory Update. Mr. Merriam explained the process of reviewing a complex and changing rule and the impact expected on the electric generating industry. Mr. Merriam also described the threshold issues of developing such a rule and the expectation that the proposed rule will look different when it is released in a final format. Part of the weakness of the rule is that the EPA set a goal for reduction of carbon emissions for every state, instead of a national standard. Another weakness is the lack of clarity in EPA's authority to promulgate this type of rule when reviewing the Clean Air Act. The rule takes a two-phased approach, with the first phase beginning with compliance in 2020. Mr. Merriam explained how the states will determine their Best System of Emission Reduction. Each state's goal should reflect an emission target the EPA has determined to be "reasonable". The overall State of Florida emission rate change must decrease from 1,200 pounds of carbon dioxide per megawatt hour to 740 pounds of carbon dioxide per megawatt hour.

Mr. Merriam stated that the proposed rule is scheduled to become final by June 2015. The states must then complete an implementation plan by June of 2016, with extensions possible. This is the first time that state plans will become federally enforceable. OUC has met with the Florida Department of Environmental Protection, and Mr. Merriam has future meetings with EPA leadership on impacts of the rule, including stormwater management at the Stanton Energy Center.

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Mayor Dyer left the meeting at 4:05 P.M.

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Commissioner Lee expressed his appreciation for Chip Merriam's presentation and his efforts to help OUC preserve flexibility while preparing for uncertain EPA rules. He thanked Mr. Ksionek for the make-up Sustainability Workshop, and praised the Green Conference Room. He thanked Ms. Harrington for her Economic Development presentations and praised the Service Award recipients.

Commissioner Ferrone recognized the focus on OUC's strategic intents with regards to the Budget and Capital Plan and stated the importance of maintaining that focus. She praised OUC's balancing of sustainability and EPA rules with customer rates and company growth.

Commissioner Dominguez stated that she is excited to see OUC's recruitment strategy and appreciates the idea of the utility as a friend in economic development. She stressed the importance of sustainability in regards to attracting specific companies to Central Florida. She stated that OUC must be mindful of the cost ramifications of nuclear power. She thanked Mr. Romero for his invocation.

President Kirby echoed Commissioner Lee's comments and stated that he has enjoyed seeing multiple Service Award recipients during his tenure. He also thanked everyone for their birthday wishes.

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President Kirby adjourned the meeting at 4:19 P.M.

President

Secretary