Vock, Tammy

From: Barry Moline [bmoline@publicpower.com]
Sent: Friday, May 27, 2011 2:39 PM
To: Vock, Tammy
Subject: Issue Paper from FMEA: Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility
Attachments: FMEA Vero Beach Proposed Sale Issue Paper 2011-5-27.pdf

Tammy,

Please distribute the attached paper to Mayor Kramer, Vice Mayor Turner, Council Members Carroll, Fletcher, and Heady.

Thanks,

Barry

Barry Moline
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FMEA
FLORIDA MUNICIPAL ELECTRIC ASSOCIATION

Memorandum

May 27, 2011

To: Mayor Jay Kramer
Vice Mayor Pilar Turner
Councilmember Tracy Carroll
Councilmember Craig Fletcher
Councilmember Brian Heady

From: Barry Moline, Executive Director

Subject: Issue Paper: Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility

We at FMEA have been watching carefully the debate and discussion regarding the proposed sale of the Vero Beach Electric Utility. From time to time, elected officials at FMEA member cities choose to consider selling their utility assets. In the past 15 years, about five utilities have held such debates in their communities. In each of those discussions, FMEA has offered information and analysis to assist in the debate.

We prepared a paper: **Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility**. We focused on facts, primarily in the areas of electric rates, impact on revenues, electric reliability and hurricane response.

I am available to discuss the paper on the phone or in person (in Vero Beach) May 31, June 1 or June 2. Unfortunately, I am unavailable June 3-17. Thank you for the opportunity to share this analysis, and I look forward to discussing the issue paper with you.

Please contact me at:

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Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility

Prepared by

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Contact: Barry Moline, Executive Director
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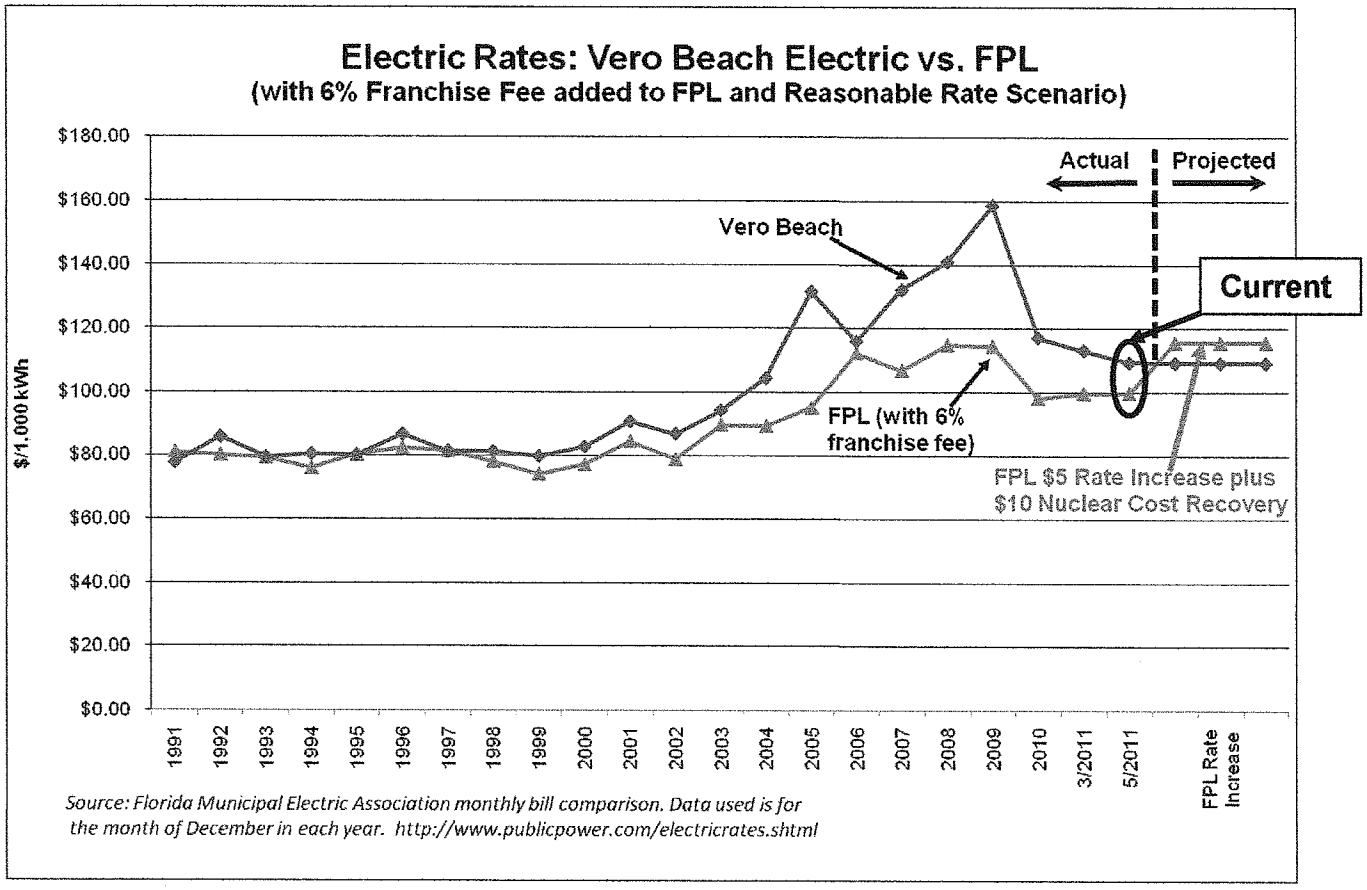
Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility

Executive Summary

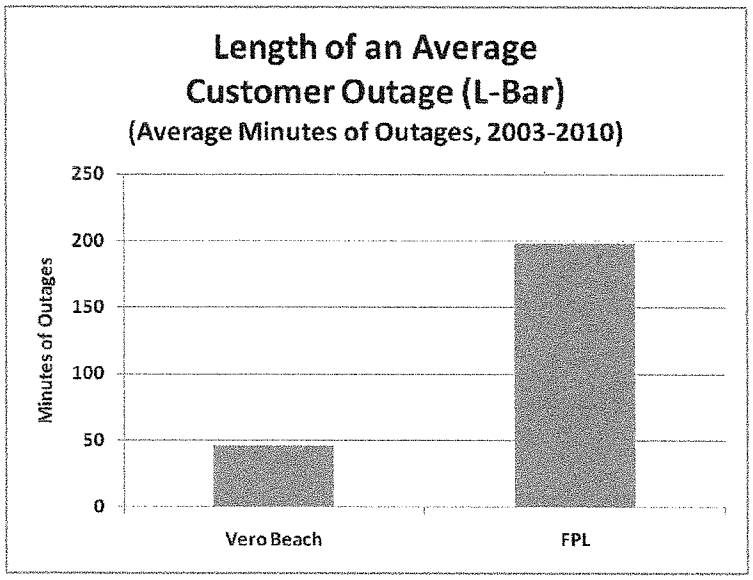
- **FPL's rates will likely rise above Vero Beach's electric rates in the near future.** Vero Beach's rates have been competitive with FPL's rates in the past. They were high from 2005-2010, but recently have dropped considerably so they are comparatively similar. Furthermore, with reasonable assumptions about recent FPL rate requests to the PSC and nuclear power investments, it is highly likely FPL's rates will be above Vero Beach electric rates for many years to come. Currently, the Vero Beach Electric Utility is the 5th lowest-cost utility of all 54 utilities in Florida.



- **With a sale of the Vero Beach Electric Utility, local property taxes will likely rise, community services will be cut, or there will be a combination of both.** The City of Vero Beach will be faced with either cutting public services by approximately $3.4 million, or raising property taxes, to replace lost revenue from the electric utility. Or, it might consider a combination of both service cuts and tax increases. Thus, selling off

the electric utility assets very well might result in the taxpayers of Vero Beach paying both higher property taxes AND higher electric rates.

- **Vero Beach Electric has superior reliability compared to FPL.** By every measure of electric reliability, the Vero Beach Electric Utility is significantly more reliable than FPL. In other words, FPL customers experience more outages, and when the lights do go out, for FPL customers they stay out longer. By one of the most important reliability measures, L-Bar, FPL outages average 3.3 hours, while Vero Beach Electric Utility outages average 46 minutes. *(Source: PSC and FMPA, 2011)*



- **Vero Beach Electric has a history of superior hurricane restoration compared to FPL.** Compared to the Vero Beach Electric Utility, outages from hurricanes in FPL's service area are significantly greater. The reasons are straightforward: Vero Beach has crews dedicated solely to the Vero Beach Community, a mutual aid network allowing Vero Beach the ability to immediately use lineworkers from all around Florida, the Southeast and the United States, and 54% more underground wires compared to FPL. **The citizens of Vero Beach, as a customer of FPL, will be permanently losing their "First-In-Line Status" for hurricane restoration.** As a residential community, it is unlikely Vero Beach will ever be a priority for restoration with FPL as their electric utility.

The Vero Beach Electric Utility is currently the 5th lowest-cost utility of all 54 in Florida. Instead of the utility being on the auction block, it ought to be given accolades for turning around high rates while maintaining superior service.

The citizens of Vero Beach have a choice. They can continue to own their own locally controlled electric utility and maintain a high degree of reliability, aesthetics and competitive prices, or they can sell off the utility at a bargain-basement price, to an organization that has shown over many years to have run its operation at lower standards of reliability.

Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility

This paper examines a variety of issues for consideration by policymakers and the citizens of Vero Beach as they decide whether to continue to own and operate their community-owned electric utility or sell the assets to Florida Power & Light (FPL). This paper examines the facts of the situation and highlights the multi-faceted aspects of this complex decision.

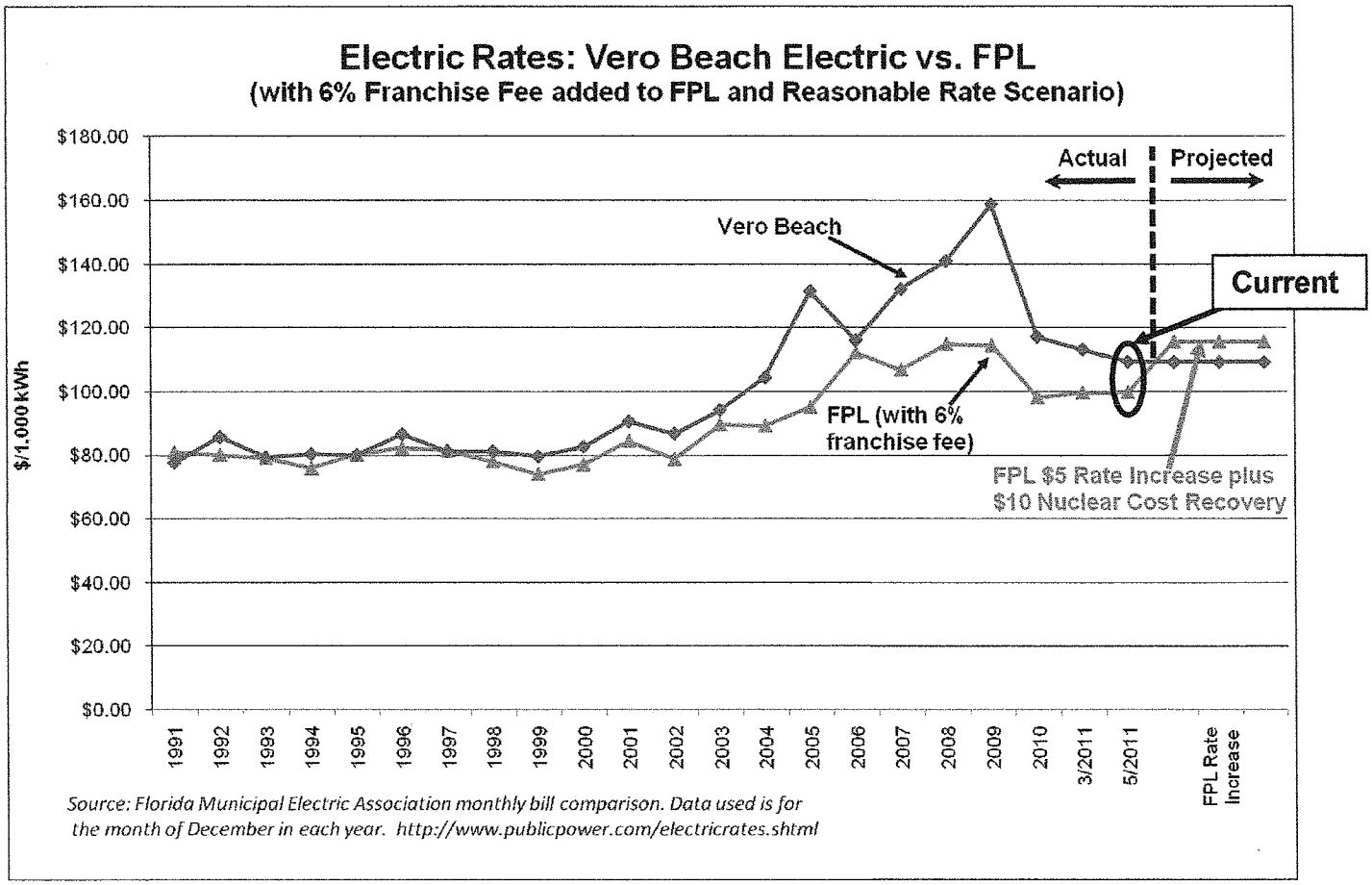
The following issues are considered:

1. Electric rate comparison – historical, current and estimate of future.
2. Revenue impacts to the City of Vero Beach with and without the electric utility revenues.
3. Tax implications to the citizens of Vero Beach of a sale of the electric utility.
4. Reliability comparison of the City of Vero Beach Electric Utility versus FPL.
5. Comparison of hurricane restoration, City of Vero Beach versus FPL.
6. Differences in the way the City of Vero Beach and FPL are regulated.
7. The role of the Public Service Commission in reviewing the sale.
8. Conclusion.

1. Electric rate comparison – historical, current and future scenarios

It appears from the debate over the past few years that the most significant component of the decision to abandon and sell the Vero Beach Electric Utility is higher electric rates. If this is the case, then it would be wise to consider important information about recent developments in rates at FPL and the City of Vero Beach and take a longer term perspective of rate impacts.

The bottom line is that rates between the two utilities are now close, with an 8.7% difference. Vero Beach Electric is still higher, but because of developments with FPL, it is expected that FPL's rates will rise in the next few years. The rationale for FPL's upcoming rate increases, described on the following pages, do not exist in Vero Beach. Therefore, it is reasonable to expect FPL's rates will be higher than Vero Beach Electric's rates in the near future.



The chart shows from 1991 to 2011, with a likely scenario for the near future, Vero Beach Electric Utility's rates compared to FPL's rates. The following are important observations:

- To make an apples-to-apples comparison, a 6% franchise fee has been added to FPL rates. The rationale is because if FPL were to serve Vero Beach Electric customers, it is likely – and has been stated publicly – that a 6% franchise fee would be added to FPL's rates.
- Rates were nearly the same from 1991 to 2003. There were years where Vero Beach's rates were lower than FPL and years where the opposite was true.
- In 2004 a larger rate disparity began to emerge. Natural gas prices rose, and Vero Beach's previous power supplier was heavily reliant on natural gas. In 2010 Vero Beach changed power suppliers to the Orlando Utilities Commission. Rates have declined sharply. In May 2011, Vero Beach Electric's rates are 31% below their high in 2009.
- **The Vero Beach Electric Utility is currently the 5th lowest-cost utility, of all 54, in Florida.**[1]

[1] FMEA Monthly Bill Comparison, www.publicpower.com/pdf/rates/2011/2011_april_rates.pdf, plus Vero Beach staff information on rate change in May 2011.

FPL's Rates are Rising: Reasonable Rate Increase Scenario

In 2009, FPL sought a 30% base rate increase from the Florida Public Service Commission. The request was denied, and TC Palm reported that in response FPL suspended $10 billion in electric system upgrades after the rate hike request was rejected (TC Palm, 1/20/2010).

Without question, FPL will be seeking a base rate increase in 2012 planning that it goes into effect January 2013, when the current rate freeze deal with the Florida Public Service Commission expires. It is difficult to estimate the rate increase they will request. For their 30% rate increase request, the Sun-Sentinel reported (9/16/2009) that it would result in an increase of $12.40 per month to FPL customers for the first 1,000 kilowatt-hours used (kWh). We do not know how high FPL's rates will rise. However, to be conservative, we estimate the customer bill impact per 1,000 kWh to be $5 per month.

In addition, FPL is pursuing planning and construction of two nuclear generators, Turkey Point 6 & 7. The Sun-Sentinel reports the cost is expected to be between $12-$18 billion, plus a $1.5 billion expansion of the St. Lucie nuclear facility.[2] We estimate conservatively an additional $10 increase per month in customer bills.[3] FPL has argued at the PSC much of the benefit of nuclear power occurs in the future, and rates should decline after the project begins producing power sometime in the 2020s because of fuel savings compared to natural gas and coal. Nevertheless, the fact is FPL's rates are planned to increase considerably in the next decade as a result of these new nuclear power plants.

The bottom line is that Vero Beach's rates have been competitive with FPL's rates in the past, they were high from 2005-2010, but recently dropped considerably so they are comparatively similar. Furthermore, with reasonable assumptions about the upcoming FPL rate increase and nuclear power investments, **it is highly likely FPL's rates will be above Vero Beach Electric Rates for many years to come.**

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[2] Sun-Sentinel, 10/17/09

[3] In the Florida Public Service Commission's Docket No. 100009-EI, Order No. PSC-11-0095-FOF-EI, February 2, 2011, the estimate for the monthly bill impact in 2012 for Progress Energy's future nuclear investment is $20.39. On page 25 of the PSC Order, Progress Energy shows a monthly customer rate impact of nearly $40 additional to pay for the nuclear project. Since FPL's nuclear power plant and Progress Energy's projects are similar, in this scenario, we conservatively use $10 as a monthly bill impact. We believe the impact will likely be higher.

2. Revenue Impacts to the City of Vero Beach

On July 6, 2010, then City Manager Jim Gabbard wrote a memo to the Mayor and City Council, titled "Electric Utility Transfer Impact on Revenue." The memo describes the transfer from the Vero Beach Electric Utility as $5.5 million per year. If the Taxpayers of Vero Beach dispose of the electric system, they could impose an electric franchise fee of 6% on themselves.[4] The memo states that this would raise $2 million.

FPL estimates in its April 4, 2011, Letter of Intent (LOI) that it will pay the City of Vero Beach $1.4 million annually in franchise fees. Furthermore, the LOI states:

> *FPL will provide additional revenue streams in the form of property taxes to the City, and other entities operating within the area served by the City's electric utility, totaling more than $1.7 million and including more than $500,000 in support of the Indian River County school system.*[5]

FPL will NOT be providing $1.7 million to the City of Vero Beach in property taxes as a result of a sale of the Vero Beach Electric Utility assets. These property tax revenues would be split among a variety of entities, including Indian River County, the City of Indian River Shores, and the Indian River County School Board. A more reasonable estimate of property tax revenues would be approximately $400,000.

The April 4 LOI states an offer price for the Vero Beach Electric Utility of up to $100 million. Without additional information, and for the sake of discussion, we use this as the expected gross revenues from a sale. **Net cash received for the utility will be considerably less than the sales price.** The utility has the equivalent of $65 million in debt.[6] Furthermore, it would owe damages to its power supplier, Orlando Utilities Commission, for breach and subsequent termination of its power supply contract, in the 2nd year of a 20-year agreement. The damages would be capped at between $20-50 million. Optimistically, the cash payout from a sale would be $15 million; at the low end, with a termination fee of $50 million, the City of Vero Beach would have to pay $15 million to sell its electric utility. Of course, if the sales price is higher, net revenue from the sale will also be higher.

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[4] Franchise fees of 6% are common across Florida.

[5] FPL Letter of Intent, April 4, 2011, cover letter, item vii.

[6] The City of Vero Beach Electric Utility System has two outstanding bond issues, the Series 2003A in the outstanding principal amount of $46,900,000 and a $6,100,000 bank loan with Regions Bank. The Series 2003A bond issue is not callable by the City of Vero Beach until December 1, 2018; therefore, if the City were to defease the issue with the proceeds from the sale of the electric utility, approximately $58,800,000 would be needed together with interest earnings in order to have a sufficient amount to call the outstanding Series 2003A Bonds on December 1, 2018. The Bank Loan held by Regions Bank is callable at the option of the City on June 1, 2013. The amount needed to legally defease this debt would be approximately $6,200,000. Thus, $58,800,000 + $6,200,000 = $65,000,000.

If the net cash payment for the electric utility is $15 million, and Vero Beach elected officials choose to invest it all in a certificate of deposit earning between 1-2% interest, the revenue would be $150-300 thousand per year. Based on these reasonable estimates, the City of Vero Beach will be short approximately $3.4 million annually in its general fund, representing a 23% reduction in general fund revenues.[7] If these estimates do not pan out as planned (e.g., the net revenue from the sale is less), then the annual shortfall will likely be significantly higher.

3. Tax Impacts to the City of Vero Beach

As a result of the revenue shortfall, the City of Vero Beach would then have several choices: It could cut general fund services and staff, raise property taxes, or implement a combination of both. The July 6 memo provided a Millage Calculator. To replace a $3.4 million annual shortfall, an ad valorem tax millage increase of about 1.6 would need to be imposed, raising total millage for the City of Vero Beach to about 3.5 mills. **It would be wise to understand these impacts carefully before proceeding.**

Thus, selling off the electric utility assets very well might result in the taxpayers of Vero Beach paying higher property taxes AND higher electric rates.

4. Reliability comparison of the City of Vero Beach Electric Utility versus FPL

By every measure of electric reliability, the Vero Beach Electric Utility is significantly more reliable than FPL. In other words, FPL customers experience more outages, and when the lights do go out, they stay out longer.

According to three common measures of reliability, and measured for eight years – from 2003-2010 – the Vero Beach Electric Utility is significantly more reliable than FPL. Most likely, this is the result of several sound business practices in Vero Beach that are not standard procedure for FPL: a) Frequent tree trimming, b) Local fast-acting lineworkers, c) Listening to customers, and d) Undergrounding.

a) <u>Tree Trimming</u> – Falling trees and branches are the primary cause of electric outages. The Vero Beach Electric Utility trims trees on its transmission and distribution system on a three-year cycle. This means that one-third of the electric system has its trees trimmed each year. This practice costs more, but because trees are the primary cause of outages, is worthwhile if reliability is a priority. The majority of municipal electric utilities in Florida trim trees on a three-year cycle.

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[7] $5.5 million transfer - $1.4 million franchise fee - $0.4 million property taxes - $0.3 million interest from sale = $3.4 million annual revenue shortfall

FPL, on the other hand, is governed by the Public Service Commission to trim trees only every six-years.[8] If FPL management made reliability a priority, it would trim trees on a more frequent basis, but this would cost more. FPL effectively must choose between returning profits to shareholders and enhancing reliability for customers. The emphasis on profits leaves FPL's customers "in the dark" longer than Vero Beach Electric's customers (see pages 13).

FPL might argue that trimming trees on a six-year cycle is sufficient. There are two obvious outcomes of FPL's tree trimming practice. First, on a six-year cycle, trees must be cut severely so they won't grow into electric lines for six years. **For those who value the aesthetics of trees in local neighborhoods, these are drastic cuts.** Second, the multi-year data shown later in this section prove FPL's six-year tree trimming cycle is inferior compared to the superior reliability of the Vero Beach Electric Utility.

b) Local fast-acting lineworkers – There is a tremendous and obvious benefit to having local lineworkers who live nearby, and work within minutes of the utility. They simply get to work faster, and when there is an outage, they restore power faster. Furthermore, Vero Beach utility employees are personally invested in their community. They take pride in the work they do for their utility and in the results they produce for the Vero Beach community. This feeling of pride is difficult to quantify and doesn't show up on any particular graph. However, this pride is demonstrated by the positive results we see later in this Section and Section 5 for reliability and hurricane restoration.

In the map on the next page, the closest FPL service center is located 15 miles from Vero Beach, in Fort Pierce (3301 Orange Ave.). Google Maps[9] estimates that the driving time in normal weather is 24 minutes. In bad weather, driving time will be longer. When there is an outage, this distance will add additional time that FPL customers will be kept in the dark without power.

The Vero Beach Electric Utility Service Center is located at 3455 Airport West Dr., in Vero Beach. As a result, Vero Beach lineworkers are always within a few minutes of any outage.

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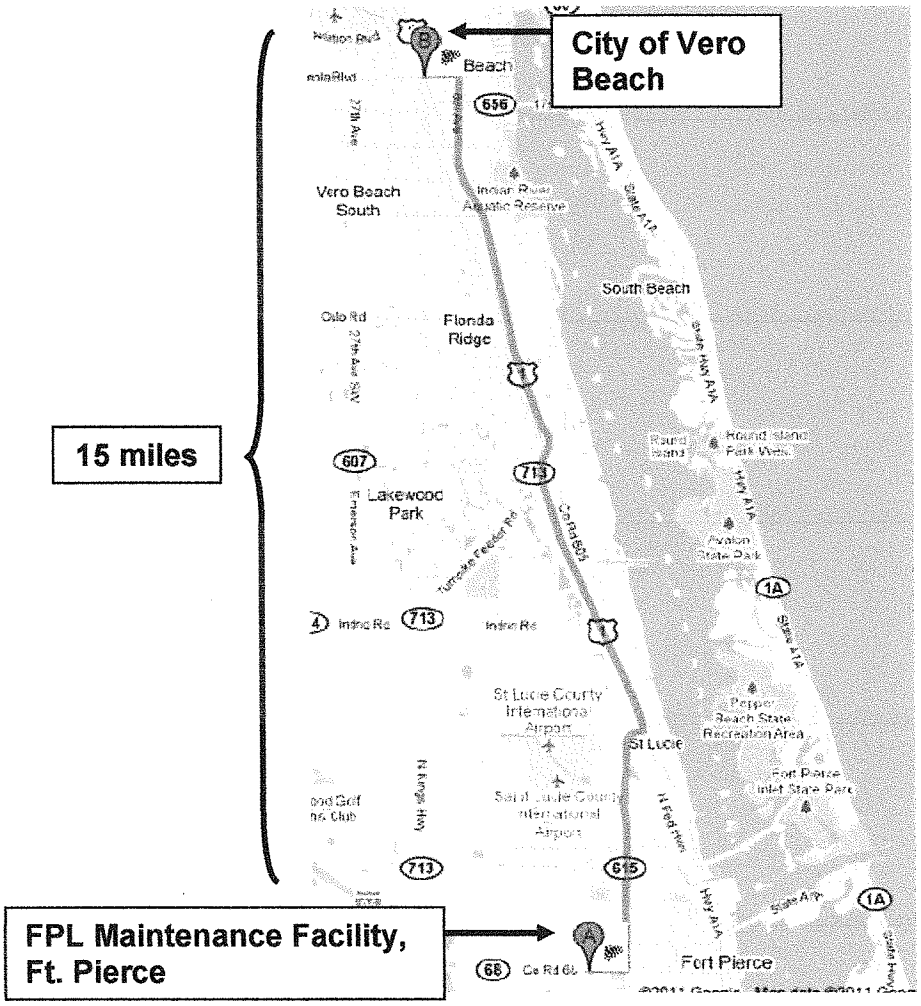
[8] Complying with basic standards identified by the Florida Public Service Commission, FPL trims vegetation around transmission facilities on a six-year cycle, feeders (main streets, such as four-lane roads) on a three-year cycle, and laterals (neighborhoods) on a six-year cycle.

[9] http://maps.google.com/maps?rlz=1T4SKPB_enUS344US344&q=3301+Orange+Ave.+Ft.+Pierce,+FL&um=1&ie=UTF8&hq=&hnear=3301+Orange+Ave.+Fort+Pierce,+FL+34947&gl=us&ei=L_vCTeOdHpTogQevwoTtAQ&sa=X&oi=geocode_result&ct=image&resnum=1&ved=0CBsQ8gEwAA



c) Listening to customers – One reason why the Vero Beach Electric Utility is considered a well-run utility by other electric utilities across Florida is because its distribution system is in outstanding condition. Fifty-seven percent (57%) of the Vero Beach Electric System is underground, enhancing reliability and improving aesthetics. Furthermore, if a part of the customer base is experiencing a problem, such as a higher level of outages, or leaning poles, customers will provide feedback to the Vero Beach utility director, city manager or City Council, and the utility will respond to the problem. While we cannot say exactly how FPL responds to customer concerns such as leaning poles, the recent experience of South Daytona is a good example. The City of South Daytona has for years asked FPL to fix such problems to improve the aesthetics of their community, yet FPL has not addressed them. The experience of South Daytona speaks for itself, suggesting that such requests are not made a priority by FPL. As a result, South Daytona is seriously considering creating a municipal electric utility, and recently went to court with FPL to obtain a price for purchasing the local system. The next step for South Daytona is to obtain bids on power supply.

FPL would argue, correctly, that they are required by the Public Service Commission to install the lowest cost option of everything. However, one important benefit of a local public power utility is that if community leaders decide aesthetics have a value, say for economic development, reliability or beautification, they can choose to place electric lines underground. Vero Beach City Leaders have made undergrounding a priority over the years, and this has resulted in a beautiful community with superior electric reliability. However, if served by FPL, Vero Beach could still underground power lines – but it would pay 75% of the full cost for the undergrounding conversion, then hand over the facilities to FPL. [10] Vero Beach customers would pay and FPL would own. Funding FPL's distribution system with no corresponding credit may not be a wise investment, but that would be customers' only option for all conversions from overhead to underground wires with FPL as their utility.

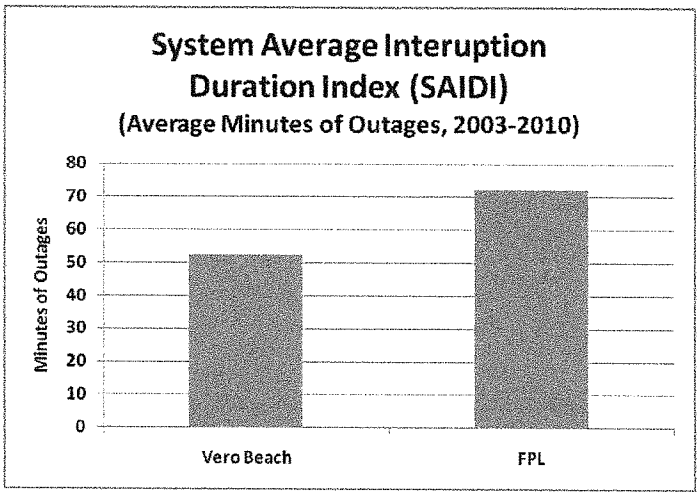
d) Undergrounding – The Vero Beach Electric Utility is 57% underground. FPL's electric distribution system is 37% underground. Placing poles and wires underground has a substantially positive impact on reliability. It is also more expensive. Finally, undergrounding the electric system improves the aesthetics of the community tremendously. Generally, undergrounding costs three times more than placing electric lines above-ground. Thus, over the years the Vero Beach Electric Utility has invested soundly and consistently in high reliability and emphasized community beautification. **What you see within the Vero Beach Electric Utility service area is the result of years of decisions made with the local community kept as a priority.**

In fact, outside-city customers have benefited more from this undergrounding policy than inside-city customers, as the greater fraction of undergrounding exists in the outside-city electric service area.

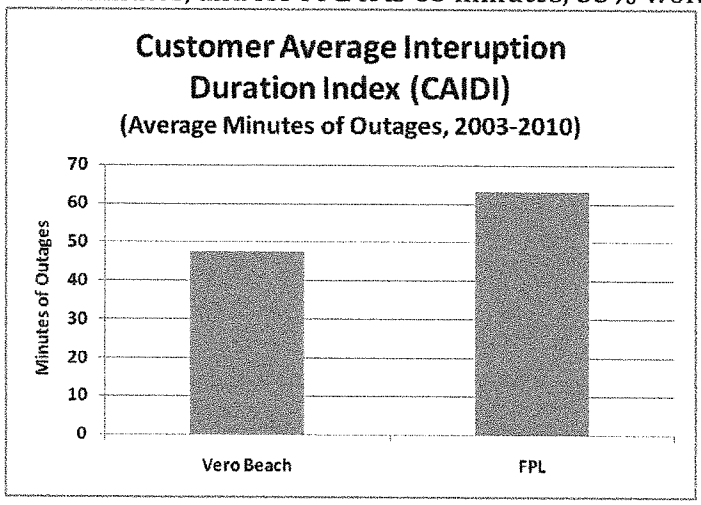
[10] PSC rules allow customers to pay 75% of the cost of undergrounding, with the remaining customer base paying 25%.

We examined three common reliability measures, for which data exist from 2003-2010: SAIDI, CAIDI, and L-Bar.[11]

i) SAIDI – The System Average Interruption Duration Index is the average length of an outage for all customers served in a year.[12] The 8-year average for Vero Beach is 52 minutes, and for FPL it is 72 minutes, 38% worse.



ii) CAIDI – The Customer Average Interruption Duration Index is the average restoration time for all customers in a year.[13] The 8-year average for Vero Beach is 48 minutes, and for FPL it is 63 minutes, 33% worse.



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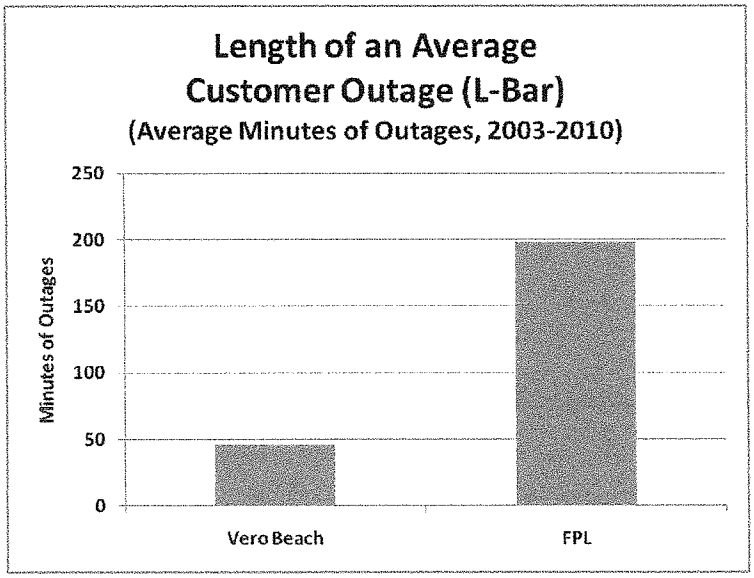
[11] Sources: Florida Public Service Commission, *Review of Florida's Investor-Owned Electric Utilities' Service Reliability, March 2011,* and Florida Municipal Power Agency, 2011. Municipal utilities began comparing these data in 2003.

[12] $\text{SAIDI} = \frac{\text{sum of all customer interruption durations}}{\text{total number of customers served}}$

[13] $\text{CAIDI} = \frac{\text{sum of all customer interruption durations}}{\text{total number of customer interruptions}} = \frac{\text{SAIDI}}{\text{SAIFI}}$

iii) L-Bar – This is the most telling of the reliability indices. L-Bar represents the length of an outage for each customer experiencing an outage.[14] It is not averaged or diluted by the total number of customers, as are SAIDI and CAIDI. L-Bar indicates how long an outage is from beginning to full restoration at each house and business. The 8-year average for Vero Beach is 46 minutes, and for FPL it is 198 minutes, 328% worse. In other words, **the average length of an outage in Vero Beach is 46 minutes; for FPL, the average outage is three hours and 18 minutes.**



5. Comparison of hurricane restoration, City of Vero Beach versus FPL

Within the past seven years, Indian River County has experienced two hurricanes, Jeanne and Francis in 2004, and Tropical Storm Fay in 2008. Below are graphs showing the percentage of customers in Indian River County without power during each storm's restoration period, served by FPL and the Vero Beach Electric Utility.

In all three storms, it is clear FPL had more outages for a longer period of time compared to the Vero Beach Electric Utility.[15]

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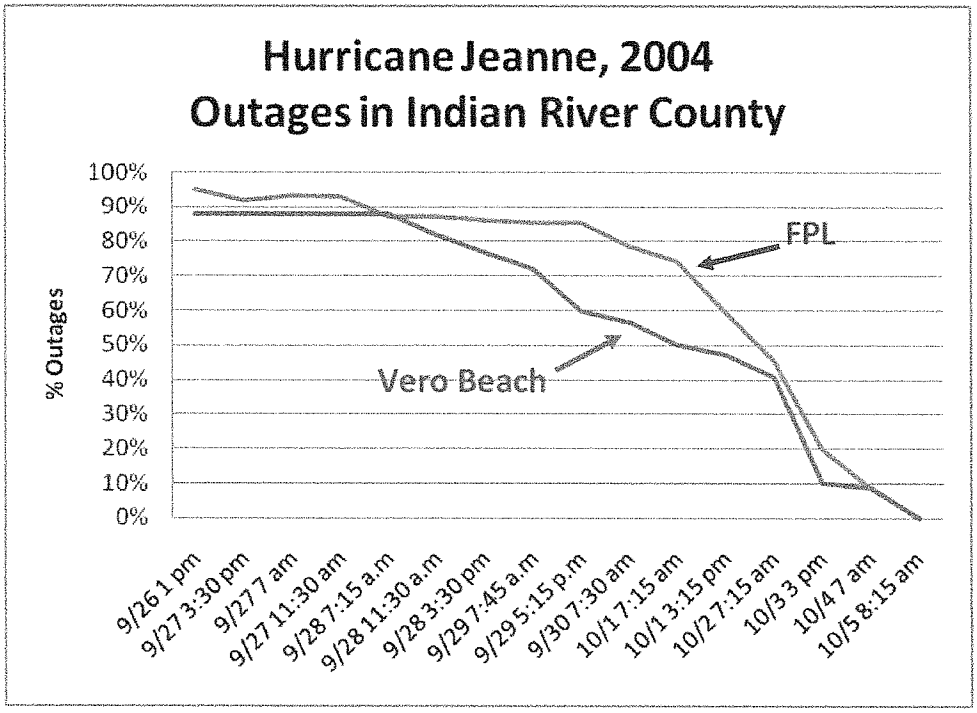
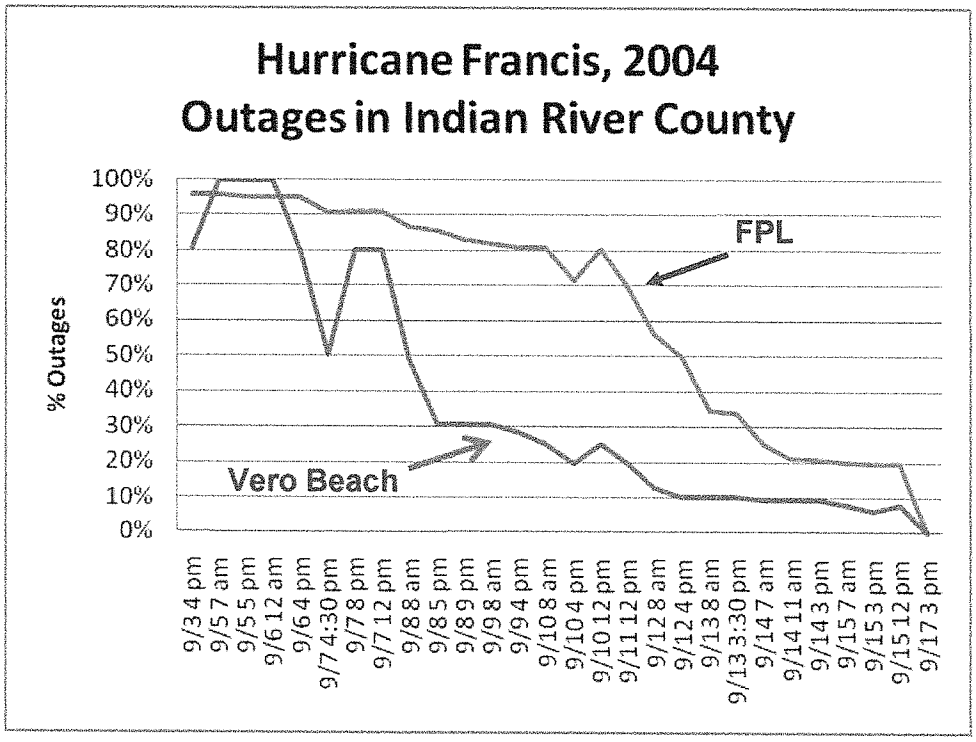
[14] L-Bar = $\frac{\text{Minutes of Interruption}}{\text{Total Number of Outages}}$ = Length of an average outage

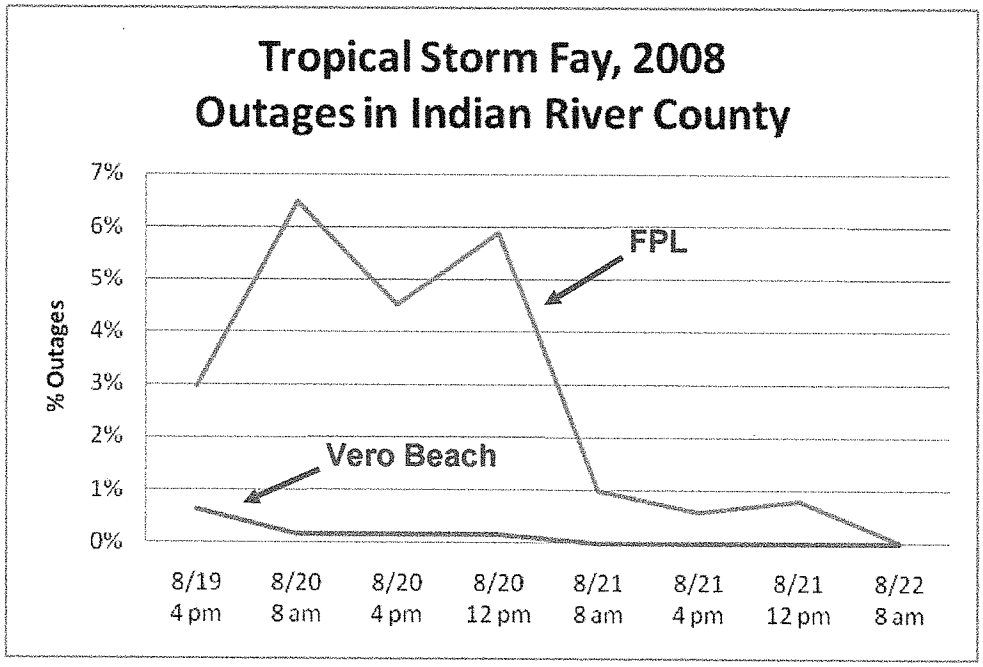
[15] Florida Department of Emergency Management, ESF-12, 2004 and 2008.

The reasons why more customers of Vero Beach kept their lights on, and had their electricity restored faster, are similar to why FPL's overall reliability is inferior (see Section 4):

a) Vero Beach has a more frequent tree trimming cycle, and as a result, addresses problem trees twice as often as FPL (every three years versus every six years for FPL in neighborhoods).
b) Vero Beach has invested in significantly more underground wires, which are not impacted by falling trees and branches. In fact, Vero Beach has 54% more underground distribution wires than FPL.
c) Vero Beach has local DEDICATED lineworkers who work immediately AND ONLY on the Vero Beach Electric System.
d) Vero Beach is connected through mutual aid to 33 other public power utilities in Florida, and 2,000 utilities nationwide, who immediately supply all the lineworkers, trucks and equipment necessary for fast restoration.







Recently FPL has touted its new outage management system, which supplies information about equipment and outage locations to field personnel. We are hopeful this will improve FPL's hurricane response. However, an improved outage management system is not the cause of FPL's slower hurricane restoration record compared to the Vero Beach Electric Utility. For FPL, the root-cause of the problems remain: Having enough human resources in the field, dedicated locally, and

deploying them efficiently. **The citizens of Vero Beach, as a customer of FPL, will be permanently losing their "First-In-Line Status" for hurricane restoration.** The highest priority in Indian River County for fast restoration would likely be the Indian River Medical Center, near the Airport. As a residential community, it is unlikely the rest of Vero Beach will ever be a priority for restoration with FPL as their electric utility.

6. Differences in the way the City of Vero Beach and FPL are regulated

The rates of the Vero Beach Electric Utility are regulated by the Vero Beach City Council, while FPL's rates are regulated by the Florida Public Service Commission in Tallahassee.

The benefit of local regulation is that anytime there is an issue with the operation of the electric utility, it is easy for any customer to address the Vero Beach City Council and seek action. As a utility regulator, the City Council is required to treat all customers equally, regardless of whether they are Vero Beach taxpayers (i.e., customers inside city vs. outside city). In fact, from an operational perspective, there has never been a complaint that Vero Beach Electric has treated a customer outside city limits any differently than a customer inside city limits. There has been extensive discussion about tax treatment, which has changed over time, but operationally, all customers have been treated the same by the Vero Beach City Council.

Regarding taxation, the City of Vero Beach in the past levied a public service tax on inside-city customers and an equal surcharge on outside-city customers. Because Indian River County also imposes a franchise fee on electric customers, however, the bills of outside-city customers were higher than inside-city customers. In 2010 the Vero Beach City Council voted to treat inside and outside customers differently – they eliminated the public service tax on outside-city customers, but kept the tax on inside-city customers. As a result, as charged by the Vero Beach Electric Utility the electric bills for outside-city customers are now lower. However, because Indian River County charges its own franchise fee on the entire Vero Beach electric bill, outside-city customer bills are similar to inside-city customer bills.

There has been substantial discussion about providing meaningful representation for outside city limits customers, which compose 61% of the Vero Beach Electric Utility customer base. Because they don't vote for the City Council, the local regulators, some have claimed the City Council does not represent these outside customers. These individuals have called for regulation of the Vero Beach Electric Utility by the Florida Public Service Commission in Tallahassee, suggesting that because all voters statewide have the opportunity to vote for the Governor, and the Governor appoints PSC commissioners, this somehow constitutes full and fair representation of the outside-city customers. To suggest this connection equals "representation," is clearly a stretch, especially for a utility such as FPL that

contributes millions of dollars to campaigns for the Governor and legislators in order to receive favorable treatment in Tallahassee.

PSC regulation of the Vero Beach utility would be costly, in the range of $300,000 to $500,000 per year, for the cost of regulation[16] plus lawyers and extra staff to represent the Vero Beach Electric Utility before the PSC in Tallahassee. **One important concern about PSC regulation for the Vero Beach Electric Utility is that instead of addressing customer concerns directly in Vero Beach, entire debates and discussion would take place 400 miles away in Tallahassee.**

If the Vero Beach community decides to keep its electric utility and not sell to FPL, then it must address this issue – representation – in a meaningful way. One option is to create an independent utility authority, with appointed directors from among both inside and outside city customers. In Florida today there are six independent electric utility authorities. This discussion is important, but only if the decision is to keep the electric utility.

FPL is rate-regulated by the Florida Public Service Commission in Tallahassee. All interactions with the PSC are in formal judicial-like hearings. It is practically impossible for an average customer to have any meaningful influence on the regulatory process. On any utility case customers can write letters to be entered into the PSC record, they can make the long trip to the PSC to make a short statement, or participate by telephone. However, this distant and usually spotty participation has little consequence on the process.

Furthermore, when customers of FPL want to talk to a senior utility manager, it is nearly impossible. The FPL president does not handle customer complaints. Conversely, if a customer of the Vero Beach Electric Utility wants to see a senior official, they can easily make an appointment with the Utility Director, City Manager, the Mayor or Member of the City Council. Customer voices are regularly heard at Vero Beach City Council meetings. On the other hand, FPL's customers have complained to the news media about their concerns being marginalized or ignored.

Recently, when FPL asked for a $1.2 billion rate increase, the PSC sought to disclose the salaries of 368 top FPL executives earning more than $165,000 per year. FPL fought the request all the way to the Florida Supreme Court. These employees collectively were paid $84 million, for an average of $228,260 per employee. With many of these employees earning near the $165,000 level, it is clear that some employees are earning well above $228,260. Nevertheless, because FPL is a private, closed company, information such as this is kept secret. In the City of Vero Beach, not a single employee – not even the chief executive officer – earns $165,000. FPL has 368.

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[16] Private utilities rate-regulated by the PSC, such as FPL, are required to pay 1/8 mill/kWh annually to the PSC for the cost of regulation; municipal electric utilities, which are rate-regulated by local city officials, are required to pay the PSC 1/64 mill/kWh. A mill equals one-tenth of a cent.

The Vero Beach Electric Utility is an open, public organization. Its records are open to the public. The salary of the highest paid employee, the City Manager of the City of Vero Beach, is currently being discussed at $145,000.

7. The role of the Public Service Commission in reviewing the sale

If the City of Vero Beach sells its electric utility to FPL, the Florida Public Service Commission will review certain terms of the sales agreement. The purpose of the PSC's review, however, has nothing to do with protecting the City of Vero Beach or its citizens, and **the PSC will not take a position on whether the City of Vero Beach is receiving a fair price for the assets it is selling. Rather, the PSC's sole role is to assure FPL's ratepayers do not OVERPAY for the assets and no FPL customers are harmed in the transaction.** FPL is permitted only to put in its rate base the book value for the assets it purchases. Thus, it is not permitted to pay market value and spread the costs over all of FPL's customers in higher rates. If FPL were to pay above depreciated book value, then the PSC would require one of two options: a) FPL pay the difference from its profits (which is possible, but unlikely), or b) a monthly fee, collected for 10-20 years, would be imposed on all the customers of the Vero Beach Electric Utility to pay FPL to buy the utility at the higher price. That would be like selling your house for a lot of money, then paying the seller extra rent to live in your house. The PSC has no such concerns about protecting the residents of the local Vero Beach community.

8. Conclusion

- **FPL's rates will likely rise above Vero Beach's rates in the near future.** Vero Beach's rates have been competitive with FPL's rates in the past, they were high from 2005-2010 due to fuel charges, but recently have dropped considerably so that they are comparatively similar. Furthermore, with reasonable assumptions about recent FPL rate requests and nuclear power investments, it is highly likely FPL's rates will be above Vero Beach electric rates for many years to come. Currently, the Vero Beach Electric Utility is the 5th lowest-cost utility of all 54 utilities in Florida.
- **With a sale of the Vero Beach Electric Utility, local property taxes will likely rise, community services will be cut, or there will be a combination of both.** The City of Vero Beach will be faced with either cutting public services by between $3.4 million, or raising property taxes, to replace lost revenue from the electric utility. Or, it might consider a combination of both service cuts and tax increases. Thus, selling off the electric utility assets very well might result in the taxpayers of Vero Beach paying both higher property taxes AND higher electric rates.
- **Vero Beach Electric has superior reliability compared to FPL.** By every measure of electric reliability, the Vero Beach Electric Utility is significantly more reliable than FPL. In other words, FPL customers experience more outages, and when the lights do go out, for FPL customers they stay out longer. By one of

the most important reliability measures, L-Bar, FPL outages average 3.3 hours, while Vero Beach Electric Utility outages average 46 minutes.

- **Vero Beach Electric has a history of superior hurricane restoration compared to FPL.** Compared to the Vero Beach Electric Utility, outages from hurricanes in FPL's service area are significantly greater. The reasons are straightforward: Vero Beach has better maintenance, dedicated crews to the Vero Beach Community, a mutual aid network that allows Vero Beach the ability to immediately use lineworkers from all around Florida, the Southeast and the United States, and 54% more underground wires compared to FPL. **The citizens of Vero Beach, as a customer of FPL, will be permanently losing their "First-In-Line Status" for hurricane restoration.** As a residential community, it is unlikely Vero Beach will ever be a priority for restoration with FPL as their electric utility.
- **The Public Service Commission has no role in protecting the residents of the Vero Beach community or assuring that the price offered is fair.** The only role the PSC has is to make sure FPL's current customers do not pay above book value for purchasing the Vero Beach electric utility assets. If FPL were to pay above book value, then FPL could pay that difference from its profits or by charging a surcharge on the electric bills of the current customers of the Vero Beach Electric Utility for 10-20 years.

When all the issues are examined, the picture becomes clear. During the past few years, FPL has had lower rates than the Vero Beach Electric System. But there are consequences for doing that; the rate differential has now been nearly erased and, indeed, will reverse itself in the near future. Compared to the Vero Beach Electric Utility, FPL's reliability is worse, hurricane outages are larger and restoration is slower, there's less investment in undergrounding, and aesthetics are bad. Today the City of Vero Beach owns its own electric utility and operates it professionally with concern only for the local community. The emphasis for FPL, on the other hand, is on minimizing costs and maximizing profits. In the process of making money for FPL's shareholders, electricity is delivered.

The Vero Beach Electric Utility is currently the 5th lowest-cost utility of all 54 in Florida. Instead of the utility being on the auction block, it ought to be given accolades for turning around high rates while maintaining superior service.

The citizens of Vero Beach have a choice. They can continue to own their own locally controlled electric utility and maintain a high degree of reliability, aesthetics and competitive prices, or they can sell off the utility at a bargain-basement price, to an organization that has shown over many years to have run its operation at lower standards of reliability.