

**OPENING STATEMENT FOR
INDIAN RIVER SHORES MAYOR BRIAN BAREFOOT
JOINT PUBLIC MEETING
OCTOBER 28, 2014**

I want to personally thank the City and County leaders for coordinating calendars to allow this meeting to take place so promptly.

At the outset, I want everyone to know that we do not relish the fact that we are in an adversarial process. We're grateful that state law provides for a conflict resolution process to hopefully avoid litigation.

We are here today to discuss -- and hopefully resolve -- the issues in dispute. But before I address the key disputed issue, I'd like to provide some background so that you have a clear understanding of our Town's position.

The special act that created our town gave our Town Council the right and the responsibility to provide our residents with reasonably priced electric service and to protect our residents from unfair utility practices. That same law also authorized the Town to contract with others (through franchise agreements) to provide our citizens with electricity.

In 1986 our Town entered into a franchise agreement with the City that did three things. First, it relinquished the Town's statutory right to provide its residents with electricity for a period of 30 years. Second, it gave the City's electric utility permission to serve within the Town's municipal boundaries for a period of 30 years, which was deemed to be an appropriate length of time to fully depreciate the cost of the infrastructure that delivers service to our residents. And finally, it provided the City's electric system with access to the Town's rights of way and other public areas for 30 years. In exchange for these concessions, the City expressly agreed only to charge the Town and its citizens with reasonably priced electricity.

Unfortunately, the City has a long history of excessive rates. For years now, the people in our Town have expressed grave concern that the City's electric rates have been unreasonably high. And I don't think anyone here will disagree that the City's rates are significantly higher than the rates of FPL.

As I'm sure you know by now, approximately 20% of our residents are served by FPL while the other 80% are served by the City. The significant disparity between the City's high electric rates and FPL's rates creates an unacceptable situation where neighbors within our same community are being forced to pay vastly different rates for essentially the same amount of electricity. Not only is the significant rate disparity unfair, it is extremely divisive and costly for our community. This disparity is why we seek not only lower rates, but rates that are comparable to FPL.

Our constituents have complained about the City's rates for years, and we cannot in good conscience sit back any longer. The current situation is untenable. We think that the City's electric rates are especially unconscionable because the City is using its electric revenues from its Non-Resident Customers to subsidize its general operating budget. Approximately 24% of the City's general operating budget is paid for with a so-called "transfer" of utility revenue to the City's general fund. That transfer exceeds \$6 million each year, and is nothing more than a subsidy to support City operations that provide no benefit to the Town and its residents.

We also believe the City utility has a demonstrated history of imprudent planning that puts its customers at great risk. We cannot in good conscience subject our citizens to that risk by continuing our present relationship with the City.

As I mentioned earlier, we have a statutory obligation to see that our citizens are protected from unreasonable rates and unfair utility practices. The status quo is unacceptable. Something has to be done to address this rate crisis.

I understand that the City has been working with OUC to try to lower its rates. Since those efforts have drawn a lot of interest, I'd like to share with you some of my initial observations about those proposals.

While the City should be commended for seeking new opportunities to reduce rates, the more we learn about the proposal, the more concerns we have. In the interest of time, I'm just going to touch on four of those concerns.

- First, even if the proposed purchased power amendments were to reduce costs, and even if those cost reductions translated into reduced rates—which in my view are two “BIG IFS”-- they would still leave the City’s rates significantly higher than FPL’s. Our constituents have made it clear that such disparity in rates within our Town is unacceptable.
- Second, the proposal would do away with the “purchase-what-you-use” contract the City now enjoys and would replace it with a “take-or-pay” contract that requires a minimum purchase of power regardless of what the City uses. Given that 60 percent of the utility’s customer base is served under franchise agreements that expire in the next 2 to 3 years, we question whether locking in a minimum purchase is prudent. That’s not our decision to make, but it does appear to represent a highly risky course of action.
- Third, the projected rate reductions appear to be extremely tenuous given that they are based on an assumption that Vero’s electric rates will not be subject to any other upward pressure. In our view, that’s a dangerous assumption to make since Vero gets 40% of its power from FMPA and its costs under its FMPA contracts could very well increase significantly in the future. What’s also alarming is that there does not appear to be an assessment of the risks associated with the fact that Vero has several contracts with FMPA for coal-fired generation. Given the likelihood of costly carbon regulation, it seems to us that Vero’s reliance on coal-fired generation exposes the City to the risk of increasing environmental compliance costs, which could offset any of the potential cost reduction measures that are being discussed. I would also point out that in our view, FPL, because of its fuel mix, does not have that same level of exposure to costly carbon regulations, which is all the more reason to aggressively pursue the sale rather than patchwork contract amendments.
- Fourth, the projected rate reductions are front-loaded, meaning that while rates are projected to go down for the first 3 years, rates are expected to creep back up after year 3. This is a classic “teaser” rate structure that offers the possibility of short-term rate reductions in exchange for the City assuming substantially greater risks long term. And no one knows when the reduction would begin because transmission upgrades will be necessary. From what I understand, there was a plan published in 2012, which pegged the cost of emission control upgrades to Stanton I at \$16.5 million and Stanton II at \$7.8 million. I expect that those cost

increases will be flowed through to the City utility customers in the form of increased rates. And from what I can tell, no one knows what the cost of those transmission upgrades will be, although I'd note that FPL estimated that the transmission upgrades would be approximately \$8 million. As the Utilities Commission Chairman (Mr. Stradley) stated, it certainly appears to be another example of the City's short-term decision-making that has long-term consequences. To us, it is symptomatic of the City's history of imprudent decision-making.

- Finally, we notice that the City plans to continue the unjust transfer of utility revenue from non-resident customers to the City's general revenue fund. That issue is central to the current dispute between our municipalities. In fact, the City had a great opportunity to reduce that subsidy, if only by a small amount, in its 2014-15 budget that could have resulted in a modest lowering of electric rates for all customers. Instead, the City chose to actually increase the dollar amount of the subsidy.

As I mentioned earlier, I commend the City Council, its representatives and the OUC for seeking new opportunities to lower rates. However, from my perspective, it appears to be "too little, too late and too risky."

The further along in this process we go, the more convinced I become that our dispute goes far beyond rates and instead is founded upon long-term structural decisions that your predecessors made that continue to plague our community.

Let me explain ...

While the City's excessive electric rates cause substantial hardships to all of its electric customers, this rate crisis is really symptomatic of a much more serious problem. That problem stems from the fact that your predecessors at the City have effectively abdicated ownership and control over the City's electric utility to the FMPA—an unelected body that is accountable to no one.

I attended the City Council meeting on October 21 and listened to some of you and your counsel explain that you cannot proceed with the sale of your electric utility and you cannot bring your rates down to parity with FPL because your "hands are tied" by contracts that your predecessors entered into with FMPA. If that indeed is true, then it appears to me that your "hands" are not only tied by FMPA, but your utility's destiny is completely in the "hands" of FMPA.

- FMPA apparently tells you what you must charge for the electric services that you provide.
- FMPA tells you whether or not you can sell your utility system.
- FMPA tells you whether or not you can exit the utility business.

Some of you may be comfortable with having abdicated virtually all control over your electric utility to an unelected body like FMPA. However, our Town finds it extremely troubling. In fact, we believe it would be imprudent for our Town to continue to agree to allow the City to serve our community with electric service if the City does not have control over the destiny of its own utility.

Our Town was never privy to the contracts that the City entered with FMPA (or with OUC) and the people of our Town were never given any opportunity to approve or comment on those contracts. Those are the City's contracts and the City's contracts alone.

Again, we firmly believe that the solution to those onerous contracts is for the City to sell its electric utility system to FPL. If, however, the City has given up on trying to sell its utility, then that's unfortunate.

The truth is, if the City is unwilling or unable to effectuate the sale, we felt and continue to believe that a lawsuit is the only option available to provide our residents with the long-term rate relief that they deserve.

So the Town has a decision to make. The Town's franchise agreement with the City is scheduled to expire in November of 2016. Facing that deadline (which will occur in a little over 2 years), our Town has 2 options. Do we continue to allow the City permission to serve within our municipal boundaries, and charge what we believe to be unreasonable rates with little or no local oversight? Or, do we exercise our right as a sovereign municipality and take the necessary steps for the Town to provide our citizens with electricity?

I hope that background gives you some sense of the Town's position regarding the issues in dispute today.

From the Town's perspective, the threshold issue in this dispute is: Does the City have any options left to move the sale to FPL off the "back burner" so that all electric customers in our region can benefit from lower electric rates?

If the City is unwilling or unable to sell its utility to FPL, then the issue becomes --Can the City offer its non-resident customers long-term rate parity with FPL?

If the City is not able to offer rate parity with FPL, then at the end of the franchise agreement – November 6, 2016--the Town will exercise its statutory right (and responsibility) to move forward with providing its citizens with reasonably priced electricity.

In that case, -- the issue becomes: What is the most cost-effective way that the Town can separate from the City at the end of its franchise agreement and provide reasonably priced electricity to its residents?

As I mentioned at the beginning, I commend the City for considering new ways for lowering rates for all customers, but I'm also a realist and understand that those rate reduction ideas, even if accomplished, would not bring the City's rates to parity with FPL's.

So, if the City is unwilling or unable to lower its rates to parity with FPL, then I think the discussion today should not be focused on what rate reduction measures you are considering, but rather what actions the Town and the City could take to allow the City and the Town to part ways with respect to electrical service in the most cost-effective manner possible.

We certainly hope that the City is able to develop new ideas to close the sale of the system to FPL or to bring its electric rates to parity with FPL on a long-term basis. Absent that, we think it only fair to advise you that our Town is not going to be here in two years after the franchise agreement expires. And the City needs to plan accordingly.

That's our position on the issues. Thank you for listening and we look forward to discussing those issues in more detail with you today.