CITY OF LAKE WORTH
7 North Dixie Highway · Lake Worth, Florida 33460 · Phone: 561-586-1600· Fax: 561-586-1750

AGENDA
CITY OF LAKE WORTH
JOINT CITY COMMISSION/ELECTRIC UTILITY ADVISORY BOARD
WORK SESSION
TUESDAY, OCTOBER 14, 2014 - 6:00 PM

1. **ROLL CALL:**

2. **PLEDGE OF ALLEGIANCE:** Led by Commissioner Christopher McVoy

3. **UPDATES/FUTURE ACTION/DIRECTION:**

   A. Discuss the pros and cons of the power alternatives for the electric utility system

4. **ADJOURNMENT:**

If a person decides to appeal any decision made by the board, agency or commission with respect to any matter considered at such meeting or hearing, he or she will need a record of the proceedings, and that, for such purpose, he or she may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based. (F.S. 286.0105)

NOTE:ONE OR MORE MEMBERS OF ANY BOARD, AUTHORITY OR COMMISSION MAY ATTEND AND SPEAK AT ANY MEETING OF ANOTHER CITY BOARD, AUTHORITY OR COMMISSION.

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AGENDA DATE: October 14, 2014, Work Session **DEPARTMENT:** Electric

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EXECUTIVE BRIEF

TITLE:
Discuss the pros and cons of the power alternatives for the electric utility system

SUMMARY:

The Electric Utility Advisory Board and City Commission will examine the pros and cons surrounding the current power alternatives for the electric utility system.

BACKGROUND AND JUSTIFICATION:
On May 6, 2014, the Electric Utility Advisory Board (EUAB) presented the Electric System Timeline to the City Commission for review. The timeline consisted of a forecast of dates and actions that coincide with the Orlando Utility Commission's power supply contract.

The EUAB's timeline highlighted three alternatives for power supply: 1) To Rebuild and Upgrade the Tom Smith Power Plant 2) To Sell the Electric Utility 3) To Extend the current Orlando Utility Commission's contract. After the presentation, the City Commissioners recommended the EUAB compile a list of pros and cons for each alternative for further discussion with City Commissioners.

On July 9, 2014, the EUAB and other community leaders met and developed a list of pros and cons for each alternative.

After much discussion, on August 6, 2014 by consensus, the EUAB prioritized the list of pros and cons for each alternative: build a new plant at the existing site, extend the long term purchasing power agreement and sell the electric utility. The lists of pros and cons were recommended for the City Commission's review.

COMMISSION DIRECTION REQUESTED:
Based on the discussion of the Commission.

ATTACHMENT(S):
No Fiscal Impact Analysis – not applicable
Electric Alternatives Pros/Cons
PowerPoint Presentation

Long Term Purchase Power Agreement- Pros	Long Term Purchase Power Agreement- Cons
1. Maintains status quo and delays major decision; most politically palatable. 2. Most flexibility in a changing industry 3. Allow Lake Worth Utility to implement plan for long-term rate parity and infrastructure investment 4. Buyers' market in 2014, excess in supply capacity. 5. Opportunity to lock in fuel costs at low levels According to FGU, it is an opportune time to lock in fixed price supplies to reduce price volatility. (See Attachment) 6. Smaller government, less bureaucracy 7. Lowest Risk 8. Opportunity to evaluate different competitive opportunities by issuing RFP's 9. Offers more time for other business options to develop	1. Ties community contractually years into the future while existing problems go unaddressed 2. Requires 2nd tie line - estimated cost $10 million dollars 3. Continues transfer to general fund 4. Continues under utilization of existing assets (e.g. the natural gas line) 5. Probability of higher costs to resolve power issues in the future 6. Loss of ability to control costs with fluctuating market power costs 7. Political ramifications of hiring consultants to assist in RFP and the process of issuing RFP 8. Does not address the image problem 9. Creates the lack of consistency in the decision- making process 10. Reduces the opportunity for new revenue from generation source 11. Subject to fluctuations of FPL transmission rates 12. Need to maintain & invest in Smith Power Plant, already a fully depreciated facility 13. Increase likelihood for risk of unforeseen contingency issues

Building New Plant at Existing Site- Pros	Building New Plant at Existing Site- Cons
1. Potential to be the lowest cost power supply for customers and best financial benefit to the City 2. Financial flexibility could move city toward stability. Revenues stay in community 3. Bonds interest rates extremely favorable- historical low; good time to buy and the level of the City of Lake Worth utility debt is low 4. Saving cost of second transmission line - ($10 million); provides the option of 2nd transmission tie line when feasible 5. Ability to be self sufficient would be a source of citizen pride; positive publicity to City for innovation 6. Affirmation of City's stability 7. Potential new revenue to City by selling excess generation 8. Maximizing the value of the gas line 9. Opportunity to restore utility governance and move to utility authority with representation of entire customer base 10. Maintain or increase the number of local jobs in City (i.e. employee pride and passion 11. Reduces the reliability on single source transmission no additional transmission needed 12. Influx of jobs and economic activity during construction 13. Attractiveness of local generation for certain businesses; could expand industrial base 15. Flexibility to mix and match generation	1. High cost of construction and concern for public sentiment 2. Commits the City of Lake Worth to running a municipal owned electric utility 3. Environmental concerns – permitting licenses, Greenhouse Gas regulations, environmental cleanup 4. Binding future generation to overall financial, legal and operational obligations 5. If political situation changes, could be a limit to growth 6. Poor reputation might hinder convincing community on the investment is a good idea 7. Level of complexity increases and would require outside assistance 8. Government management and oversight 9. Cost of demolition for the Smith Power Plant 10. Legal and contractual complexity 11. Power supply island – on our own 12. Delaying decision to sell and passing it along to future generations

resources, diversify fuel resources and reduce rate fluctuation 16. Possibility to expand the sale of power 17. Potentially improving value of the utility asset in future when legal hurdles are overcome	13. Additional infrastructure upgrades needed- auxiliary equipment

Selling the Utility- Pros	Selling the Utility- Cons
1. Increase commercial competitiveness with adjacent cities (rate structure similar to neighboring municipalities); Attract more businesses and residents; Potential to shorten real estate sales times 2. Simplify city government responsibility (smaller gov't); Reduce the city administrative, maintenance and IT costs 3. Force city to live within normal "ad valorem" (revenue stream) 4. Ad valorem tax & base would rise from private company paying taxes on utility property; Collect a franchise fee from a private provider 5. Remove the electric issue from politics 6. Addressing the FMPA entitlement contract issue; Future no longer tied to other municipal electric utilities; No longer pay FMEA dues 7. Better sense of electric reliability 8. Perception that economy of scale would improve service 9. Employees get better pay and benefits 10. Rates regulated by Public Service Commission in Tallahassee 11. City transfer responsibility for utility employees pensions (depending on the deal struck) 12. Less risk (likely); Reduce city's liability exposure 13. Lower long term capital liability; Improve debt service ratios; free up capital for	1. Lose cash cow ($8-9 million per year revenue to general fund) Loss of profitable enterprise; Lose ability to earn money with the electric utility; Once utility is gone, its final 2. Legal uncertainties; Expense of lawyers and consultants; Legal hurdles of existing debt and operational obligations; Expense of overcoming them- if they can be overcome ❖ Stanton I Debt – 2020 ❖ Stanton II Debt to KUA - permanently ❖ St. Lucie Debt - 2027 3. Sense of loss of pride of ownership of electric utility 4. Loss of local control of rates 5. Loss of independence & flexibility to serve residents 6. Eliminate infrastructure improvements to electric utility 7. Loss of local customer service office; Loss of personal contact with citizens, customers & city employees 8. Legal Obstacles to replacing loss of utility profits 9. Referendum to sell would create intense political diverseness; Educating public on sale would be difficult and emotional - likely not fact based 10. Very limited recourse for decisions by new provider that would directly affect

other city uses 14. Continuity of management and governance 15. Profits from the sale could be used to improve city's infrastructure 16. Increased property values 17. Opportunities for sponsorship of community events from new electric provider 18. Buyer responsible for new utility infrastructure	rate payers 11. Power generation permits are valuable 12. Opportunities to reflect community priorities (e.g. renewable energy) solar, wind and use of natural gas options 13. Avoiding responsibility for running well operating utility. Loss of resolving local issues head on; Legitimize failure and sets bad precedent for other city operations 14. Possible reduction in city services 15. Shifting tax burden for services to property owners 16. Loss of employee passion to serve the community; Loss of employee's pride in serving the local community; Losing a lot of good employees 17. Lake Worth at a disadvantage in negotiating with a major fortune 200 company 18. In case of a natural disaster or terrorist attack, possibility of continued electric operation 19. Lose fast response time to restore power in emergency 20. Loss of vegetation control for improved aesthetics of community 21. Loss of customer investment in the community 22. Reliability could worsen

Electric Utility System

Power Supply Alternatives

Electric Utility Advisory Board

Electric Timeline

Rebuild / Upgrade Lake Worth Power Plant

Start Date: February 1, 2015

Step 1	RFQ to hire consultant to develop technical specifications	3 months
Step 2	Draft RFP to develop technical specifications for generation scope	4 months
	A. Analyze site and auxiliary requirements	
	(utilities, fuel supply, access, neighborhood, environmental conditions)	
	B. Identify required permits	
	(building, emissions,environmental, existing use, transmission interconnection)	
	C. Commission Workshop for review of scope and selection process	
	D. Other issues i.e. - bid transperancy	
Step 3	Issue RFP	3 months
Step 4	Selection Process	6 months
	A. Appoint selection committee	
	B. Evaluate total ownership investment	
	C. Financial Advisor review	
	D. Legal Review	
	E. Analyze & Perform Rate Impact	
	Critical Decision Period 6/1/16	
Step 5	Contract	6 months
	A. Technical Review	
	B. Financial Review	
	C. Legal Review	
Step 6	Commission Approval of Contract and Financing Methodology	4 months
	A. Finance	
	B. Review with the City Financial Advisor	
Step 7	Plant Construction	3 years
Step 8	Open Plant	1 month
	A. Determine best use of existing generators	
	B. Determine associated system requirements	
	C. Present milestone reports	
	Total Estimated Time to Complete	**5yrs 3 mons**
	Completion Date	**May 1, 2020**

Sell Utility

Start Date: June 1, 2014

Step 1	Draft RFQ to select evaluation firm	2 months
	A. Value System - RFQ for Market Value	
	B. Value System - RFQ for Economic Value	
Step 2	Issue RFQ's	2 months
Step 3	Selection Process	3 months
	A. Appoint selection committee	
	B. Review Proposals	
	C. Recommendations	
	D. Contract Approval	
Step 4	Valuation Process	6 months
	A. Perform Values	
	B. Review Valuations with the EUAB and staff / Financial & Legal	
Step 5	City Commission Review and Discussion	3 months
	A. Presentation of Valuations to City Commission & EUAB	
	B. City Commission Discussion	
	C. City Commission's Direction to Staff	
Step 6	Draft RFP to solicit offers for possible sale	2 months
	A. EUAB review RFP	
Step 7	Issue RFP for possible sale	6 months
	Critical Decision Period 6/1/16	
Step 8	Evaluate offers for sale	9 months
	A. Appoint selection committee	
	B. Financial Advisor Review	
	C. Legal Review	
	D. Analyze & Perform Rate Impact	
Step 9	City Commission Decision and Public Referendum (Assumes the City Commission votes to sell)	6 months
Step 10	Legal requirements (Assumes a favorable purchaser)	3 years
	A. Send letter to exit FMPA - All Requirements Project	
	B. Obtain regulatory approvals: FERC FPSC NERC SEC	
	C. Satisfy bond obligations	
	D. Bond Council Approvals	
	E. Other possible legal requirements	
Step 11	Close of sale	12 months
	Relevant Dates * OUC power supply contract – 2017 (January 1st) * OUC power supply contract – 2019 (January 1st) 2 year options * Contingent Liability Stanton I Debt – 2020/ Stanton II Debt assignment to Kissimmee Utility Authority [KUA] * St. Lucie Debt – 2027	
	Total Estimated Time to Complete	**7yrs 3 mons**
	Completion Date	**September 1, 2021**

Wholesale Purchase Power (Neither Sell or Rebuild)

Start Date: November 1, 2014

The wholesale power process must commence regardless of any offer decision (Assumes the City has executed the 2yr option)

Step 1	Exercise Extension Options with Orlando Utility Commission	2 months
Step 2	Choose Consultant / Issue the RFQ to develop the scope of RFP	2 months
Step 3	Develop RFP to purchase power	12 months
Step 4	Issue the RFP and select the provider	3 months
	Critical Decision Period 6/1/16	
Step 5	Selection Process	3 months
	A. Appoint selection committee	
	B. Review Proposals	
	C. Recommendations	
	D. Contract Approval	
Step 6	Approvals	6 months
	Total Estimated Time to Complete	**2 yrs 4 mons**
	Completion Date	**March 1, 2017**

Power Supply Alternatives

Long-term Purchase Power Agreement

Build New Plant at Existing Site

Sell Utility

LT Purchase Power Agreement – Pros

	Pros
1.	Maintains status quo and delays major decision; most politically palatable
2.	Most flexibility in a changing industry
3.	Allow Lake Worth Utility to implement plan for long-term rate parity and infrastructure investment
4.	Buyers' market in 2014, excess in supply capacity
5.	Opportunity to lock in fuel costs at low levels. According to Florida Gas Utility, it is an opportune time to lock in fixed price supplies to reduce price volatility.
6.	Smaller government, less bureaucracy
7.	Lowest risk
8.	Opportunity to evaluate different competitive opportunities by issuing RFPs
9.	Offers more time for other business options to develop

Top 5 Pros- LT Purchase Power Agreement

1.	Maintains status quo and delays major decision; most politically palatable
2.	Most flexibility in a changing industry
3.	Allow Lake Worth Utility to implement plan for long-term rate parity and infrastructure investment
4.	Buyers' market in 2014, excess in supply capacity
5.	Opportunity to lock in fuel costs at low levels. According to Florida Gas Utility, it is an opportune time to lock in fixed price supplies to reduce price volatility.

LT Purchase Power Agreement – Cons

	Cons
1.	Ties community contractually years into the future while existing problems go unaddressed
2.	Requires 2nd tie line – estimated cost $10 million
3.	Continues transfer to general fund
4.	Continues underutilization of existing assets (e.g. the natural gas line)
5.	Probability of higher costs to resolve power issues in the future
6.	Loss of ability to control costs with fluctuating market power costs
7.	Political ramifications of hiring consultants to assist in RFP and the process of issuing RFP
8.	Does not address the image problem
9.	Creates the lack of consistency in the decision-making process
10.	Reduces the opportunity for new revenue from generation source
11.	Subject to fluctuations of FPL transmission rates
12.	Need to maintain & invest in Smith Power Plant, already a fully depreciated facility
13.	Increase likelihood for risk of unforeseen contingency issues

Top 5 Cons- LT Purchase Power Agreement

1.	Ties community contractually years into the future while existing problems go unaddressed
2.	Requires 2nd tie line - estimated cost $10 million
3.	Continues transfer to general fund
4.	Continues underutilization of existing assets (e.g. the natural gas line)
5.	Probability of higher costs to resolve power issues in the future

Build New Plant at Existing Site- Pros

	Pros
1.	Potential to be the lowest cost power supply for customers and best financial benefit to the City
2.	Financial flexibility could move city toward stability. Revenues stay in community.
3.	Bond interest rates extremely favorable - historical low; good time to buy and the level of the City of Lake Worth utility debt is low
4.	Saves cost of second transmission line - ($10 million); provides the option of 2nd transmission tie line when feasible
5.	Ability to be self-sufficient would be a source of citizen pride; positive publicity to City for innovation
6.	Affirmation of City's stability
7.	Potential new revenue to City by selling excess generation
8.	Maximizing the value of the gas line
9.	Opportunity to restore utility governance and move to utility authority with representation of entire customer base
10.	Maintain or increase the number of local jobs in City (i.e. employee pride and passion)
11.	Reduces the reliability on single source transmission; no additional transmission needed
12.	Influx of jobs and economic activity during construction
13.	Attractiveness of local generation for certain businesses; could expand industrial base
14.	Flexibility to mix and match generation resources, diversify fuel resources and reduce rate fluctuation
15.	Possibility to expand the sale of power
16.	Potentially improves value of the utility asset in future when legal hurdles are overcome

Top 5 Pros- Build New Plant

1.	Potential to be the lowest cost power supply for customers and best financial benefit to the City
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4.	Saves cost of second transmission line - ($10 million); provides the option of 2nd transmission tie line when feasible
5.	Ability to be self-sufficient would be a source of citizen pride; positive publicity to City for innovation

Build New Plant at Existing Site- Cons

	Cons
1.	High cost of construction and concern for public sentiment
2.	Commits the City of Lake Worth to running a municipally-owned utility
3.	Environmental concerns - permitting licenses, greenhouse gas regulations, environmental cleanup
4.	Binding future generation to overall financial, legal and operational obligations
5.	If political situation changes, could be a limit to growth
6.	Poor reputation might hinder convincing community that the investment is a good idea
7.	Level of complexity increases and would require outside assistance
8.	Government management and oversight
9.	Cost of demolition for the Smith Power Plant
10.	Legal and contractual complexity
11.	Power supply island - on our own
12.	Delaying decision to sell and passing it along to future generations
13.	Additional infrastructure upgrades needed - auxiliary equipment

Top 5 Cons- Build New Plant

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4.	Binding future generation to overall financial, legal and operational obligations
5.	If political situation changes, could be a limit to growth

Sell the Utility –Pros

	Pros
1.	Increase commercial competitiveness with adjacent cities (rate structure similar to neighboring municipalities); Attract more businesses and residents; Potential to shorten real estate sales times
2.	Simplify city government responsibility (smaller government); Reduce the city administrative, maintenance and IT costs
3.	Force city to live within normal "ad valorem" (revenue stream)
4.	Ad valorem tax & base would rise from private company paying taxes on utility property; Collect a franchise fee from a private provider
5.	Remove the electric issue from politics
6.	Addressing the FMPA entitlement contract issue; Future no longer tied to other municipal electric utilities; No longer pay FMEA dues
7.	Better sense of electric reliability
8.	Perception of the economy of scale would improve service
9.	Employees get better pay and benefits
10.	Rates regulated by Public Service Commission in Tallahassee
11.	City transfers responsibility for utility employees pensions (depending on the deal struck)

Sell the Utility –Pros (contd.)

	Pros – continued
12.	Less risk (likely); Reduce city's liability exposure
13.	Lower long term capital liability; Improve debt service ratios; free up capital for other city uses
14.	Continuity of management and governance
15.	Profits from the sale could be used to improve city's infrastructure
16.	Increased property values
17.	Opportunities for sponsorship of community events from new electric provider
18.	Buyer responsible for new utility infrastructure

Top 5 Pros- Sell the Utility

1.	Increase commercial competitiveness with adjacent cities (rate structure similar to neighboring municipalities); Attract more businesses and residents; Potential to shorten real estate sales times
2.	Simplify city government responsibility (smaller government); Reduce the city administrative, maintenance and IT costs
3.	Force city to live within normal "ad valorem" (revenue stream)
4.	Ad valorem tax & base would rise from private company paying taxes on utility property; Collect a franchise fee from a private provider
5.	Remove the electric issue from politics

Sell the Utility –Cons

	Cons
1.	Lose cash cow ($8–9 million per year revenue to general fund); Loss of profitable enterprise; Lose ability to earn money with the electric utility; Once utility is gone, it is final
2.	Legal uncertainties; Expense of lawyers and consultants; Legal hurdles of existing debt and operational obligations; Expense of overcoming them, if they can be overcome * Stanton I Debt – 2020 * Stanton II Debt to KUA– permanently * St. Lucie Debt – 2027
3.	Sense of loss of pride of ownership of electric utility
4.	Loss of local control of rates
5.	Loss of independence & flexibility to serve residents
6.	Eliminate infrastructure improvements to electric utility
7.	Loss of local customer service office; Loss of personal contact with citizens, customers & city employees
8.	Legal obstacles to replacing loss of utility profits
9.	Referendum to sell would create intense political diverseness; Educating public on sale would be difficult and emotional – likely not fact based
10.	Very limited recourse for decisions by new provider that would directly affect rate payers

Sell the Utility -Cons (contd.)

	Cons – Continued
11.	Power generation permits are valuable
12.	Opportunities to reflect community priorities (e.g. renewable energy) solar, wind and use of natural gas options
13.	Avoiding responsibility for running well operating utility. Loss of resolving local issues head on; Legitimize failure and sets bad precedent for other city operations
14.	Possible reduction in city services
15.	Shifting tax burden for services to property owners
16.	Loss of employee passion to serve the community; Loss of employees' pride in serving the local community; Losing a lot of good employees
17.	Lake Worth at a disadvantage in negotiating with a major fortune 200 company
18.	In case of a natural disaster or terrorist attack, possibility of continued electric operation
19.	Lose fast response time to restore power in emergency
20.	Loss of vegetation control for improved aesthetics of community
21.	Loss of customer investment in the community
22.	Reliability could worsen

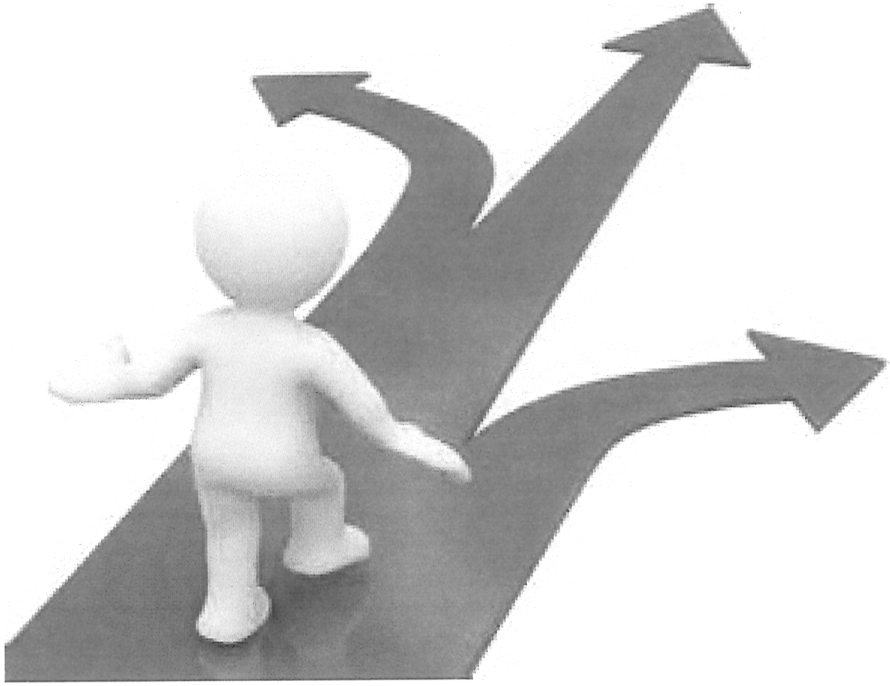
Top 5 Cons- Sell the Utility

1.	Lose cash cow ($8-9 million per year revenue to general fund); Loss of profitable enterprise; Lose ability to earn money with the electric utility; Once utility is gone, it is final
2.	Legal uncertainties; Expense of lawyers and consultants; Legal hurdles of existing debt and operational obligations; Expense of overcoming them, if they can be overcome * Stanton I Debt - 2020 * Stanton II Debt to KUA- permanently * St. Lucie Debt - 2027
3.	Sense of loss of pride of ownership of electric utility
4.	Loss of local control of rates
5.	Loss of independence & flexibility to serve residents

Power Supply Alternatives

- Long-term Purchase Power Agreement
- Build a New Plant at Existing Site
- Sell the Electric Utility

Tough Decisions Ahead



Questions ?