



Open Letter to Vero Beach City Council

Over the past several months, the Indian River Tea Party has participated in a number of presentations and in-depth discussions on both sides of the electric utility issue. We were pleased with initial steps taken by council. With the new City Council Member now in place, we want to encourage continued progress toward a long-term solution that enjoys public understanding and support. In that spirit, we offer the following observations and recommendations:

- This is a very complicated issue, particularly given the new 20-year contract with OUC. Sound bites and hot heads (key elements of referenda) won't help resolve it. The solution requires a fact-based, strategic understanding of both financial and non-financial costs and benefits of all options. This should have been done more completely when the process to exit the FMPA contract was begun.
- Non-financial strategic benefits – *to utility customers* – associated with the City being in the electric utility business must be clearly defined, articulated, and translated into a level of premium (e.g. 3% - 5%) that customers may be willing to pay for service quality, dependability, disaster recovery, and/or price stability. This has yet to be done in any definitive way.
- We applaud the City Council Workshop and subsequent actions as excellent steps in developing a shared understanding of the issues, with valuable input from all sides. We encourage you to follow through with this established momentum – particularly with FPL as an independent provider.
- The RFP process conducted by the Electric Utility project team appears to have been thorough and rigorous. The new contract corrects key flaws in the previous FMPA contract and offers customers a number of strategic benefits, including an improved structural and contractual base for better price stability. With the exception of the controversial \$50 million “exit penalty”, we believe that, *among the options defined into the RFP process*, the choice of OUC was a good one. The problem stems from a failure to evaluate *all* of the available options, when the decision was made to leave FMPA.
- It was a serious mistake not to apply the same rigorous consideration to the option of exiting (selling) the power business and relying upon a direct, independent supplier like FPL for service. Given that the City was pursuing a 20-year, \$2 billion business decision, it was *imperative* to rigorously consider this option at the time the RFP process was conducted. Neither the project team nor City Council took the opportunity to evaluate this alternative versus the best RFP bid and make a strategic, “buy or make” decision. This has exacerbated the current problem.
- The real issue now is whether Vero should be in the electric utility business – i.e. whether the OUC contract will allow it to provide electric power to residents and nonresidents *at competitive rates* on a long-term basis. Slightly higher rates may be viewed as competitive, if the “premium” is justified to maintain the strategic benefits of having/managing our own power supply.

- The Electric Utility project team has demonstrated projected rate benefits *versus other RFP bids* (including FPL as a *wholesale* supplier). *They have yet to demonstrate that the contract will result in rates that are competitive with FPL – as a direct, independent supplier – over time.* They assert that rate stability will make Vero more competitive with FPL. However, they have *not* demonstrated this. *They must articulate their assumptions and make the case, with clear projections of Vero’s and FPL’s respective rates over time.* This is critical to allowing City Council – and customers – to evaluate the alternatives. The apparent request to FPL to evaluate taking over the business and providing the service should yield valuable insight. We support this effort.
- While Glenn Heran’s EXCEL model represents an excellent tool to analyze the alternatives, caution should be used in any extrapolation of Heran’s projected *point-in-time*, 27% difference between Vero Beach and FPL rates. This translates to an *extra \$20 million per year* being paid by Vero’s 34,000 power customers. (It may be more than this, now that the PSC has disallowed much of FPL’s proposed rate increase.) This is the crux of the “customer revolt”. A computer business model is not necessary to conclude that rate differentials of this level – *over time* – would make the maintenance of the current system untenable. It would make the decision to exit the business an easy one, even in the face of a potential \$50 million penalty.
- The \$8 million in “transfers” from the utility to the City (9% of utility revenues) represents 40% of the unfavorable \$20 million in rate differential. Close to \$2 million of this amount represents payment for billing and other administrative services provided by the City to the utility. (We have no view as to whether this is cost-effective for the utility.) The remaining \$6-million “transfer to the general fund” is close to 30% of the City’s budget. This transfer of operating surplus continues to be highly controversial, particularly with rates being so uncompetitive. It is paid for by all customers, 61% of whom are not City residents and have no choice, input, vote, or control over the utility, its rates, or the transfers. We understand why many of these captive customers view this channeling of their funds into the City’s coffers through uncompetitive rates as “taxation without representation”. Council should undertake an open-forum evaluation of the appropriateness of this transfer and the way it is determined. Reducing it immediately would make rates more competitive and demonstrate a higher level of sensitivity to the above-mentioned customer concerns.

We encourage Council and management to either (a) clearly demonstrate how staying in the business with the OUC contract is in the community’s and utility customers’ long-term best interests (versus FPL as a direct supplier), or (b) actively pursue the alternative with FPL . Please maintain the momentum created in November to drive this to a conclusion that best serves the utility’s 34,000 customers.

Together, we can make a difference...

Indian River Tea Party
Executive Committee