

Executive Summary

Attached is GRU's proposed annual Fiscal Year 2016 (FY16) capital and operating budget. Staff's goal was to submit a budget that delivered on our mission "to provide safe, reliable, competitively priced utility services in an environmentally responsible manner to enhance the quality of life in our community." Certain detailed analysis and City Commission guidance has framed staff's recommendations in the FY16 proposed budget, including the Commission's adopted goal for competitive electric rates, the Base Rates and Fuel Adjustment Committee recommendations, the cost-of-service study data, and actions by the Commission as it relates to findings from each of those efforts.

In November 2014, the Commission adopted a goal to return to competitive electric rates as defined in the Chamber's Energy Competitiveness Report – electric rates at the mean/average of retail rates in Florida. No timeline was established, but staff worked diligently on this goal. The Base Rates and Fuel Adjustment Committee, established by the Commission to review various rate and fuel issues, presented its recommendations to the Commission in March. As a result, staff was asked to prepare budget restructuring to a two-tier break for electric rates at both 750 kilowatt hours (kWh) and 1000 kWh. The commission also provided direction to continue the allocation of costs to appropriate rates for multi-family water customers and to start collecting a surcharge on connection fees for customers in unincorporated areas. The cost of service study performed by Baker Tilly Virchow Krause, LLP, presented to the Commission in May, sought rate design guidance based on four recommendations from the resulting data.

1. Bring all tiered rates closer to the average cost of providing service.
2. Establish guidelines for adjusting the maximum cost differential between residential and non-residential customer classes.
3. Recover additional fixed costs associated with service availability and capacity within the customer charge component of the bill.
4. Adjust service fees to more accurately reflect the cost and effort associated with providing services.

The proposed FY16 budget reflects staff's best effort to balance the direction given by the City Commission and the many challenges facing the utility in all systems. This required deliberation and a careful, measured approach to balance financial strength and efficiency of operations with customer demand for reliability and excellent service.

The Challenges

Increasing expenses and slow-to-no sales growth continued to drive upward rate pressure. However, recognizing that trend, staff and the City Commission have identified and implemented expense reductions both in FY15 and in proposing the FY16 budget. Staff has also pursued additional revenue opportunities with the goal of mitigating rate increases projected through the budget planning horizon.

Systems

Electric

Electric sales remain relatively flat, having steadied after a declining trend over several years. Although FY14 sales finished close to forecast, they were still among the lowest in over a decade. So far this year, sales are just ahead of forecast but are anticipated to bottom out over the next several years. These flat sales are due to factors such as economic conditions, slow customer growth, efficiency improvements, a soft wholesale energy market, customer response to previous pricing signals, and the addition and expense of new generation, in the form of the GREC Power Purchase Agreement. Because GRU's rates are already among the highest in the state, in November 2013, staff began immediate steps to mitigate this upward rate pressure. These efforts included working with the City Manager to reduce the general fund transfer, making budget reductions across all systems, lowering fuel expenses, eliminating raises, unfunding or not filling 59 budgeted positions, and increasing revenue through wholesale electric sales and the sale of unused system assets such as the system control center at NW 43rd Street and NW 53rd Avenue.

The austerity efforts continued through FY15 as detailed in the annual business plan developed with the City Commission prior to beginning the fiscal year. Also, the Commission worked with staff to focus on the price of electricity in the Base Rates and Fuel Adjustment Committee which studied a number of influences on rate design and made recommendations to the full Commission that will be presented in detail in the FY16 budget meetings.

As a result of these efforts, no electric revenue requirement increase is needed for FY16, which means business rates can remain the same without an increase in price. Residential revenue will not increase, but a proposed change in rate structure will cause rates at various levels to change. Based on the previously mentioned cost-of-service study and direction considered by the Commission, staff is recommending an approach shared by most investor owned utilities and cooperatives in Florida that utilize a two tier electric rate structure with a break at 1000 kWh and a two-cent price differential between the tiers. This approach reduces the risk to revenue through fluctuations in sales due to weather and other influences, but also means customers will pay closer to the cost of providing service. The staff recommendation would result in a price decrease of \$4.25 for a residential customer at the standard industry compare of 1000 kWh for a total bill of \$136.25. And those customers that use the monthly GRU residential average of 775 kWh would see an increase of \$4.75, while customers using the single family residential average of 925 kWh would see a decrease of \$1.25. Business customers would see no change in pricing under the proposed budget. Staff is also presenting other rate options for the commission's consideration with varying levels of risk and cost recovery among consumption levels.

Natural Gas

The natural gas system will see additional expenses in FY16. Allocations of administrative and general expenses have been adjusted to better reflect costs associated with support for the system, while capital expenses will also increase for system maintenance and repair. And although sales in FY15 are ahead of forecast, the significantly lower than forecasted sales in FY14, coupled with the projected

increase in expenses, is putting upward pressure on rates. Therefore, staff is recommending an increase in rates to cover the higher cost of providing service. In FY16, under the proposed budget, residential customers would see a \$0.95 increase at the standard industry compare of 25 therms. Natural gas business customers will also see an increase ranging from 5.29 percent at 50 therms to 9.46 percent at 30,000 therms. Even with these adjustments, GRU's natural gas prices remain among the lowest in Florida.

Water and Wastewater

Water sales continued to decline in FY15 as customers use less water in response to price signals, watering regulations, weather impacts and conservation messaging. Regulatory requirements are also pushing costs higher in the water system, but more significantly in the wastewater system. Also, as a result of the Baker Tilly cost-of-service study and the firm's recommendation to more equitably share costs among water customers, staff is recommending a second year phase in of the multi-family rate (MF), although at a lower rate than originally projected. This rate is helping equalize the revenue across customer classifications to better recover the cost of providing services to multi-unit dwellings. Also, staff is recommending a change to the customer charge, to be based on meter size to better capture fixed costs associated with different service characteristics as suggested in the cost-of-service study.

Some of the regulatory obligations driving wastewater rates include compliance with Total Daily Maximum Loads (TMDLs), and requirements for biosolids treatment.

Under the proposed FY16 rates, residential customers using 7,000 gallons of water per month would see an increase of \$1.35. Business customers using 30,000 gallons per month will see an increase of 1.2 percent. Residential wastewater customers will see an increase of \$2 for 7,000 gallons under the proposed budget, while business customers will see an increase of 3.48 percent for 30,000 gallons.

GRUCom

GRUCom is the Gainesville area's only all-fiber-optic network and is providing one gigabit service to select GATOR NET locations with plans to expand the service. However, the telecommunications market is highly competitive and revenue has flattened over time as prices have become more competitive throughout the industry, with current revenue projections for FY16 remaining about the same as FY15. Fiber transport and data services continue to be in high demand by personal communication service providers, other carriers and local businesses. Wireless carriers are continuing to increase their data services as customer demand dictates. The network upgrades and additions to the wireless towers in Alachua County have GRUCom well positioned to meet bandwidth needs as customer demand increases.

South Energy Center Expansion

GRU has a long-term contract with UF Health. The South Energy Center (SEC), a GRU-owned combined heat and power plant on the UF Health south campus, currently serves the UF Health Cancer Hospital. UF Health is constructing a new \$420 million cardiovascular and neuromedicine hospital projected to

open in 2018, and as required in GRU’s contract with UF Health, GRU will be adding equipment to the SEC to serve the new tower. The SEC will serve the new hospital with electricity, emergency power, steam, chilled water, hot water and medical gas infrastructure. The total estimated investment in the SEC is \$28.5 million. Funds for the expansion were approved by the Commission and are included in the proposed capital budgets. Investments in the SEC are recovered from UF Health in accordance with GRU’s contract with UF Health. Net revenues from the SEC flow back to GRU’s electric fund, helping to provide rate relief to all GRU electric customers.

Summary

The chart below illustrates the residential price changes recommended by staff and described above. These changes use the standard industry compares for a residential customer for fiscal years FY15 and FY 16. About 70 percent of customers receive three services (electric, water and wastewater) and about 30 percent receive all four services.

System	Usage	July 2015 Bill	Base Rate Change	Fuel Change	Change to Bill	Proposed FY16 Bill
Electric	1,000 kWh	\$140.50	\$(4.25)	-	\$(4.25)	\$136.25
Water	7,000 gallons	\$27.05	\$1.35	-	\$1.35	\$28.40
Wastewater	7,000 gallons	\$50.75	\$2.00	-	\$2.00	\$52.75
Gas	25 therms	\$31.19	\$0.95	-	\$0.95	\$32.14
<small>July 2015 Electric and Gas bills based on Fuel Adjustment of \$0.078/kWh and Purchase Gas Adjustment of \$0.30/therm. Proposed FY16 Electric and Gas bills based on Fuel Adjustment of \$0.078/kWh and Purchase Gas Adjustment of \$0.30/therm.</small>						

Although the economy is improving and construction projects are underway, staff is not projecting a dramatic upswing in sales in the near term. Many of GRU’s peer utilities across Florida and the nation are reporting similar trends with slower sales and growth, increasing fixed costs and the resulting pressure on rates. It will continue to be a challenge to maintain the utility’s excellent financial strength (“Aa2” stable outlook from Moody’s, “AA” with a stable outlook from Standard and Poor’s, and an “AA-” stable outlook from Fitch) with the need to provide reliable and competitively priced utility services. It is critical during these challenging times that staff remain focused on the priorities set through the strategic planning process and continue to monitor expenses and improve efficiencies while providing excellent service delivery. Maintaining this balance will be critical to GRU’s long term success.