

**LEGISLATIVE FILE #170830**



February 23, 2018

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via Email: [mitchellkl@gru.com](mailto:mitchellkl@gru.com)

**Re: SCOPE OF SERVICES, SCHEDULE, AND BUDGET FOR CHANGE ORDER #1**

Dear Kristy:

Willdan Financial Services (Willdan) is pleased to submit this scope of work, schedule, and budget estimate in response to the request by the Utility Advisory Board (UAB) of Gainesville Regional Utilities (GRU) for additional studies of GRU's electric residential rate structure. As requested, this extended scope will analyze and provide recommendations for: reducing electric energy costs to economically disadvantaged customers; methods of promoting conservation through electric rate structures; and impacts to other rate classes from implementing these changes.

Willdan is uniquely qualified to perform this work:

- Willdan conducted GRU's most recent Cost of Service Study, finalized in January 2018;
- Willdan has extensive familiarity with:
  - GRU's residential rate structures;
  - GRU's operational, financial, and customer data; and
  - The Excel-based model that will facilitate significant elements of this study.

This proposal details Willdan's approach to the extended scope and includes a timeline and task-based budget estimate.

We appreciate the opportunity to submit this proposal and look forward to continuing our successful working relationship with GRU.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jeff McGarvey', written over a light blue circular stamp.

Jeff McGarvey  
Vice President

A handwritten signature in blue ink, appearing to read 'Lisa Vedder', written in a cursive style.

Lisa Vedder, MPA, CIA, CCSA  
Project Manager, Principal Consultant

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## A. Project Understanding

Willdan Financial Services (Willdan) has prepared this proposal for an extended scope in response to the request by the Utility Advisory Board (UAB) of Gainesville Regional Utilities (GRU) for additional studies of GRU's electric residential rate structure. As requested, this extended scope will analyze and provide recommendations for: reducing electric energy costs to economically disadvantaged customers; methods of promoting conservation through electric rate structures; and impacts to other rate classes from implementing these changes.

Having conducted GRU's most recent Cost of Service Study, finalized in January 2018, Willdan is uniquely qualified to perform this work. Willdan possesses extensive familiarity with: GRU's residential rate structures; GRU's operational, financial, and customer data; and the Excel-based model that will facilitate significant elements of this analysis.

This extended scope of work is intended to help GRU and the UAB evaluate ways to help economically disadvantaged/low-income customers and promote conservation. Specifically, the UAB has requested two primary additional tasks: 1) Electric Rate Structure Study for Residential Economically Disadvantaged Customers; and 2) Electric Rate Structure Study that Promotes Conservation, as described below.

### **Task 1: Electric Rate Structure Study for Residential Economically Disadvantaged Customers**

The rate structure study for economically disadvantaged customers will:

- Utilize audited financial statements for fiscal year 2016;
- Be based on income and usage data specific to GRU customers as identified by Willdan;
- Offer rate structure alternatives that benefit low-income customers;
- Evaluate the merits of at least three billing blocks as these structures serve to meet the low-income objective;
- Identify cost shifting to any other groups of customers (other rate classes); and
- Offer alternative solutions to aid economically disadvantaged customers other than rate structure changes based upon Willdan's industry experience.

### **Task 2: Electric Rate Structure Study that Promotes Conservation**

The rate structure study to promote conservation will:

- Utilize audited financial statements for fiscal year 2016; and
- Assess the effectiveness of rate structures with at least three billing blocks toward promoting conservation, identify billing block thresholds and pricing, and identify any conflicts with structures recommended to address the Electric Rate Structure Study for Residential Economically Disadvantaged Customers.

This proposal includes a timeline for completion of these two tasks and a project report, including technical appendices containing detailed analyses.

## B. Project Team

Lisa Vedder will serve as Project Manager for this extended scope effort. Ms. Vedder will be supported by Jennifer White as Technical Lead; electric rates and regulatory subject matter expert, JoLynn Rains; and analyst, Michael Cronin. Additional Willdan staff will be available as needed to provide additional support if needed.

## C. Proposed Scope of Work

Willdan's detailed scope of work to complete the two studies follows.

### Task 1: Electric Rate Structure Study for Residential Economically Disadvantaged Customers

Task 1 consist of five subtasks:

#### Task 1.1: Kickoff Meeting

Members of the Project Team will participate in an on-site kickoff meeting with GRU's management/staff to review and discuss the tasks to be completed, identify required data, evaluate and determine stakeholders, develop a list of contacts, and create a mutually-agreed upon timeline for completion of major tasks, deliverables, and presentations.

#### Task 1.2: Data Review

The Project Team will review audited FY 2016 data provided by GRU as part of the electric cost of service and rate design study completed in January 2018. Willdan will develop a written data request identifying the additional data and information needed to complete the two studies. Willdan will meet with GRU to discuss the data request and responses, identify potential additional resources for applicable data, and identify alternate options where data is unavailable.

#### Task 1.3: Identification of Low-Income Customers

A list of specific electric customers/accounts that may qualify as economically disadvantaged or low-income for inclusion in this analysis is a critical requirement to complete Task 1. In addition to historic consumption and billing data, understanding the root cause of energy usage is necessary to design effective rate mechanisms. High energy usage in this sector can be driven by various factors, including lack of education/knowledge regarding energy use, high numbers of individuals living in a single domicile, lack of weatherization/poor building stock, older inefficient appliances and HVAC systems, among others causes. This type of additional information for targeted customers is required to design effective solutions. Additionally, this data may be used in Task 2.

If GRU is unable to identify and characterize low-income customers, such information will have to be gathered through additional efforts including: outreach to other City programs, customer surveys, and coordination/cooperation with outside agencies serving this population. The input, participation, and feedback of outside agencies serving this population may be essential to effective program design. Outside agencies may include, but are not limited to, the following:

- Alachua County Public Schools
- Alachua County Office of Social Services

- Bureau of Economic Self Sufficiency, Florida Department of Economic Opportunity (Region 4 Low-Income Home Energy Assistance (LIHEAP) Administrator)
- Florida Department of Veterans Affairs
- Florida Department of Health in Alachua County
- Gainesville Housing Authority

Data collection through surveys and stakeholder engagement is labor intensive, requiring development, distribution, verification, and analysis of surveys. On-site meetings with stakeholder agencies would likely be required to explain the survey purpose and secure meaningful participation.

Willdan's proposed budget is based on GRU providing a list of target customers and associated data concerning housing stock, and other pertinent characteristics. Willdan will support this Option on a time and materials basis; hours in excess of those budgeted in this proposal would result in additional cost.

The lack of an existing customer database and/or use of internal City resources would increase the cost of this subtask, therefore Willdan has provided an Option B budget estimate as described below.

**Task 1.3 Option B:** Is based on the Willdan Project Team conducting the scope of work for this subtask. Under this Option, GRU and City personnel would provide needed support and coordination with outside agencies and internal departments.

#### **Task 1.4: Analyze Usage Patterns and Categorize Low-Income Customers**

Using the data from Task 1.3, in combination with data from other sources, Willdan will analyze electric usage and billing data to categorize and group accounts by: 1) types of customers (for example, elderly, those with school-aged children, etc.); 2) types of usage (for example, low usage per household member or high usage per household member); and 3) building stock (for example, single-family, multi-family, old, new, efficient, etc.).

These categories will be used to evaluate the effectiveness of rate design alternatives, other low-income program options, and conservation initiatives as discussed in more detail in Tasks 1.5 and 1.6.

#### **Task 1.5: Develop Alternative Low-Income Rate Structures**

Upon analysis and categorization of customer accounts, Willdan will develop six different alternative Residential rate structures; three of which will be applicable to all Residential customers and three of which will be applicable to a new Low-Income Residential class. Per the UAB's request, Willdan will evaluate the merits of using at least three rate tiers (or blocks) to meet its low-income objectives.

Willdan will analyze the effectiveness of these alternative rate structures in providing rate relief to low-income customers across the customer categories developed in Task 1.4; the impact to GRU cost recovery; and the impact on remaining rate classes in terms of cross-subsidization and cost shifting. As part of this task, Willdan will develop sample bills for the low-income customer categories and other impacted rate classes. Rate increases to other classes resulting from the new rate designs will be quantified.

Finally, based on industry experience and research, Willdan will provide information on alternative, non-rate-design methods, to achieve rate relief for low income customers.

## Task 2: Develop Conservation Rate Structures

Task 2 consists of four subtasks:

### Task 2.1: Kickoff Meeting

The Project Team will participate in a kickoff meeting with GRU's management/staff to review and discuss the tasks to be completed, identify required data, evaluate and determine stakeholders, develop a list of contacts, and create a mutually-agreed upon timeline for completion of major tasks, deliverables, and presentations. If scheduled concurrent with the Task 1 Kickoff Meeting, Willdan personnel will participate onsite. If scheduled separately, Willdan will participate via webinar or teleconference.

### Task 2.2: Data Review

Understanding the root cause of energy usage is key to designing effective conservation initiatives. Relatively high energy usage can be driven by various factors, including lack of education/knowledge regarding energy usage/waste, high numbers of individuals living in a single domicile, lack of weatherization/poor building stock, older inefficient appliances and HVAC systems, among others. A utility's conservation initiatives are typically part of a broader demand-side management (DSM) program designed to address targeted conservation goals while often also promoting initiatives such as peak demand shaving.

Willdan will work with GRU to identify data related to current demand-side programs/initiatives, appliances, housing stock, etc., in addition to data developed in Task 1. Information regarding drivers of customer consumption, will be matched against customer usage data to determine the relative impact of these drivers and inform the design of rates to promote conservation.

### Task 2.3: Elasticity Analysis

Conservation results are based on elasticity of customer demand relative to price movements—how responsive customers are to price increases. Willdan will use historical GRU rate levels and heating/cooling degree day data to develop expected levels of usage at various price points. While this analysis will not necessarily predict how customers will respond to rate design changes, it should provide an indication of how effective rate design changes would potentially be at promoting conservation, over the short-term, and inform rate design to ensure sufficient revenue, over the short-term.

Price elasticity of demand for GRU's customers will be measured by the change in energy demanded in relation to change in rates. Customers' price elasticity tends to wane over longer periods: as high prices persist, the relative reduction in consumption lessens.

### Task 2.4: Develop Alternative Conservation Rate Structures

Using available data, Willdan will develop three alternative Residential rate structures designed to promote conservation and energy efficiency. Per the UAB's request, Willdan will evaluate rates with at least three rate blocks, identify rate block thresholds and price points, and identify potential conflicts with structures recommended under Task 1 to address Residential Economically Disadvantaged Customers. Conservation rate structures will be designed to be revenue neutral, i.e., to generate the same revenue as GRU's existing rates.

### Task 3: Report and Presentation of Results

Willdan will develop a consolidated written report describing the study assumptions, methodology, results, findings, and opinions for Tasks 1 and 2. Willdan will prepare a draft report for submittal and discussion with GRU and the UAB, and other stakeholders as required. Upon receipt of consolidated edits and comments, Willdan will incorporate any necessary changes and submit a final report in electronic format.

Willdan has budgeted for one on-site visit to present Study results to GRU management and staff, the UAB, and other stakeholders as designated by GRU. Additional presentation visits would be accommodated for an additional fee.

### Task 4: Bi-Weekly Project Status Calls

Willdan will conduct bi-weekly project status calls with the GRU project team to provide status reports and to discuss approach, progress, issues, and accomplishments.

## D. Deliverables

The following deliverables are included in this proposed scope of work:

- Weekly/bi-weekly meeting notes resulting from scheduled conference calls;
- Formal data request in Excel spreadsheet format and tracking of responses received;
- Meeting notes from discussions with stakeholder agencies;
- Raw and organized/edited data received from stakeholder agencies;
- GRU electric cost of service models with alternative rate structures included;
- One consolidated draft report in electronic format;
- Memo enumerating and addressing requested edits, changes, and additions to be made for the final report; and
- One consolidated final report in electronic format.

### E. Project Schedule

The schedule below shows the estimated timeline for completion of the project based on the scope of work presented in this proposal. The schedule assumes that the project will require 15 weeks. If the project begins in March 2018, presentation of final results and any rate recommendations to GRU Management and the UAB would occur in June or July, 2018. This schedule assumes that any necessary stakeholder agencies will be available and willing to assist either the Project Team, or GRU, with data needs in a timely fashion. A final schedule will be developed and finalized with GRU upon receipt of a notice-to-proceed.

Task #	Description	Week														
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
<b>Task 1: Electric Rate Structure Study for Residential Economically Disadvantaged Customers</b>																
1.1	Kickoff Meeting	█														
1.2	Data Review		█													
1.3	Identification of Low-Income Customers			█	█	█	█	█	█							
1.4	Analyze Usage Patterns and Categorize Low-Income Customers								█	█	█					
1.5	Develop Alternative Low-Income Rate Structures										█	█	█			
<b>Task 2: Develop Conservation Rate Structures</b>																
2.1	Kickoff Meeting	█														
2.2	Data Review		█	█	█					█	█					
2.3	Elasticity Analysis								█	█	█					
2.4	Develop Alternative Conservation Rate Structures										█	█	█			
<b>Task 3: Report and Presentation of Results</b>																
	Submittal of Draft Report														█	
	Edits to Draft														█	█
	Submittal of Final Report															█
	Presentations (to be determined)															█
<b>Task 4: Bi-Weekly Project Status Calls</b>																
	Bi-Weekly Project Status Calls		█		█		█		█		█		█		█	

## F. Project Budget

Based on the scope of services outlined in this document, Willdan proposes combined project labor billings and expenses of \$63,100, as provided in the table below. The fixed fee amount changes based on Task 1.3 (Option B). Should GRU select Task 1.3 Option B, the combined project labor billings and expenses total \$82,100.

The proposed fees include all anticipated project costs, including labor billings and expenses. The budget provided assumes one on-site visit for the kickoff meeting and one on-site visit to present results. If Task 1.3 Option B is selected, the budget assumes a week (four days) of on-site meetings in Gainesville with stakeholder agencies.

GRU CHANGE ORDER #1 BUDGET					
TASK	DESCRIPTION	Hours	Labor	Expenses	Total
1	Electric Rate Structure Study for Residential Economically Disadvantaged Customers	252	\$34,600	\$850	\$35,450
2	Develop Conservation Rate Structures	64	\$11,400	\$-	\$11,400
3	Report and Presentation of Results	104	\$15,400	\$850	\$16,250
4	Bi-Weekly Project Status Calls	Included	Included	Included	Included
	<b>TOTAL</b>	<b>420</b>	<b>\$61,400</b>	<b>\$1,700</b>	<b>\$63,100</b>
<i>1 (Option B)</i>	<i>TASK 1 with Task 1.3 Option B</i>	354	\$51,100	\$3,350	\$54,450
	<i>TOTAL WITH TASK 1.3 OPTION B</i>	522	\$77,900	\$4,200	\$82,100