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Candor. Insight. Results.

Gainesville Regional Utilities

Revenue Requirement, Cost of Service Study, and Rate Design

November 20, 2012

Russ Hissom, CPA, Partner

an independent member of BAKER TILLY INTERNATIONAL

Who is Baker Tilly?

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Company Overview

- Established in 1931
- One of the 20 largest accounting and advisory firms in the United States according to Accounting Today's 2012 "Top 100" list
- Over 170 partners and more than 1,400 professionals
- Offices in Wisconsin, Illinois, Michigan, Minnesota, New York, and Washington, D.C.

Nationwide energy practice

- More than 100 electric utility clients across North America
- Audit and consulting services, including rate studies
- Energy and Utilities Group focused exclusively on utilities

Baker Tilly Energy and Utility Clients

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Arizona
- Arizona Corporation Commission

California
- California Public Utilities Commission
- PG&E
- SCE
- SDG&E
- Burbank Water and Power
- Sacramento Municipal Utility
- Modesto Irrigation District
- Lassen Municipal Utility District

Colorado
- Colorado Springs Utilities

Florida
- Orlando Utilities Commission
- Florida Municipal Power Agency
- Gainesville Regional Utilities
- Lakeland Electric

Guam
- Guam Power Authority

Idaho
- Idaho Power

Illinois
- Illinois Municipal Electric Agency

Indiana
- Indiana Municipal Power Agency

Iowa
- Cedar Falls Utilities
- Muscatine Power and Water
- Waverly Light and Power

Kentucky
- Kentucky Municipal Power Agency

Massachusetts
- MMWEC

Michigan
- MI South Central Power Agency

Midwest Region
- Midwest Reliability Organization

Minnesota
- Otter Tail Power
- Utilities Plus
- Xcel Energy
- Laurentian Power Authority

Missouri
- Columbia Utilities
- Kansas City Power and Light

Nebraska
- Lincoln Electric System

New Mexico
- New Mexico Public Utilities Commission

North Carolina
- Charlotte Utilities

North Dakota
- Missouri Basin Power Project

New York
- Long Island Power Authority
- New York Public Service Commission
- Iberdrola USA

Ohio
- PUC of OH
- AMP-Ohio

Oklahoma
- OG&E
- Oklahoma Municipal Power Authority
- Grand River Dam Authority

Oregon
- Northern WASCO PUD

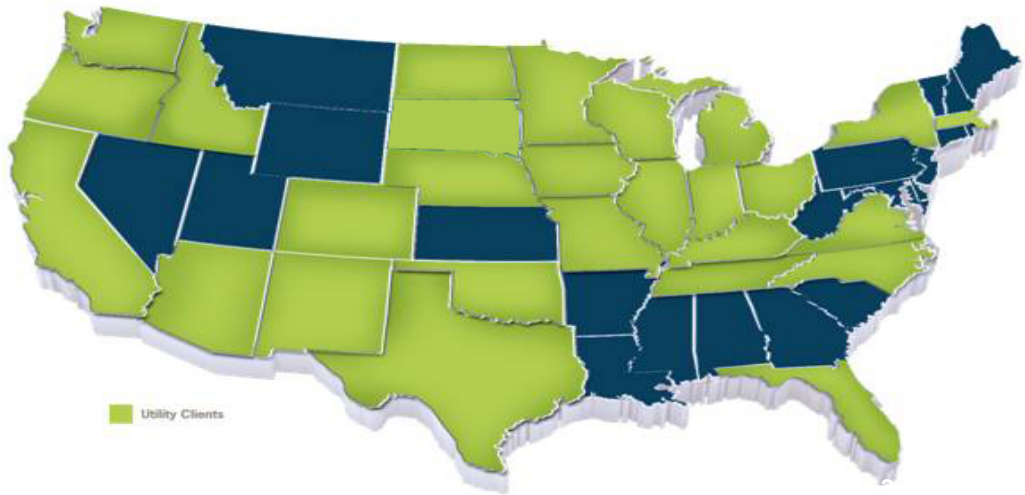
South Dakota
- Missouri Basin Municipal Power Agency
- Missouri Basin Municipal Electric Cooperative Association

Tennessee
- Pulaski Electric System

Texas
- Entergy
- CPS Energy
- Lower Colorado River Authority
- New Braunfels Utilities
- Bryan Texas Utilities

Washington
- Seattle City Light
- Snohomish PUD
- Avista

Wisconsin
- ATC
- PSCW
- WEnergies
- WPPI
- Madison Gas & Electric



Project overview

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Baker Tilly performed utility rate studies for GRU based on industry standard methods

- Electric
- Water
- Wastewater
- Natural Gas

GRU provided data for rate studies

What is a rate study?

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Purpose of a rate study

- Do rates provide enough revenue to meet utility costs?
- Does each customer class pay a fair portion of utility costs?

A rate study compares revenue to cost for a single year, called a test year.

Baker Tilly used GRU's fiscal year 2013 as the test year.

What are the parts of a rate study?

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Revenue Requirement

Cost of Service Study

Rate Design

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Revenue Requirement Forecast

What is a revenue requirement?

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A revenue requirement is a forecast of the total cost to provide utility service for the test year.

To continue operating, a utility needs revenues equal to its total cost.

How did Baker Tilly forecast the revenue requirement?

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Two industry standard methods of calculating a revenue requirement:

- Utility Basis
- Cash Basis

Often, the two methods produce a similar result.

GRU used a cash basis revenue requirement in the past.

Baker Tilly used a utility basis revenue requirement

How do cash basis and utility basis differ?

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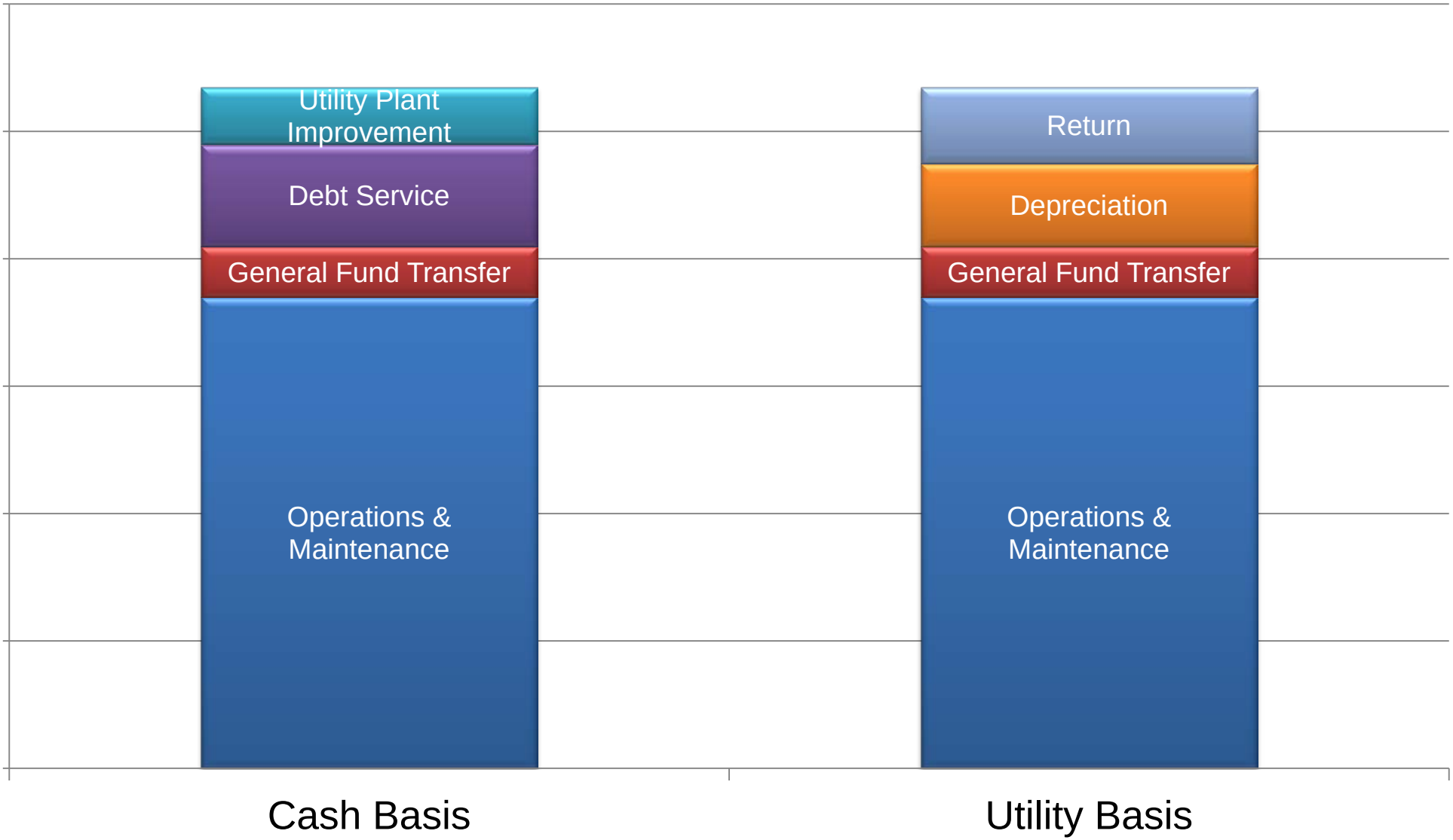

What are the parts of a revenue requirement?

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In the utility basis, a revenue requirement has six parts:

1. Operation and maintenance expenses
2. Depreciation
3. Return
4. General fund transfer
5. Rate stabilization transfer
6. Other revenues

What are the parts of a revenue requirement?

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Operation and maintenance expenses are the costs incurred to operate the utility and maintain infrastructure.

Depreciation is the loss of an asset's value through wear and tear.

Return is the opportunity cost of the utility's investment, which pays bond holders or is reinvested in the utility.

What are the parts of a revenue requirement?

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The general fund transfer is a payment in lieu of property taxes and franchise fees to the City of Gainesville.

Rate stabilization transfer is the utility best practice of retaining unexpected revenue in one year to meet unexpected expenses in a future year.

Other revenues are revenues coming into GRU from any source other than rates.

- Electric surcharge
- Late charges
- Rent from utility property

Electric Revenue Requirement

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	Forecasted 2013
Revenue from Rates	$ 132,817,262
Fuel Adjustment (incl Embedded)	99,129,194
Discounts	(970,710)
Sales for Resale - Base Rate	2,829,057
Sales for Resale - Fuel	6,793,855
Revenue at Present Rates	***240,598,658***
Operations and Maintenance	178,646,749
Depreciation	32,784,486
Return	30,315,232
Transfer to the General Fund	20,144,128
Transfer to Rate Stabilization	4,541,579
Other Revenue	(22,193,767)
Cost of Service	***244,238,407***
Difference	***$ 3,639,749***
Percent Difference	***1.513%***

Electric Revenue Requirement

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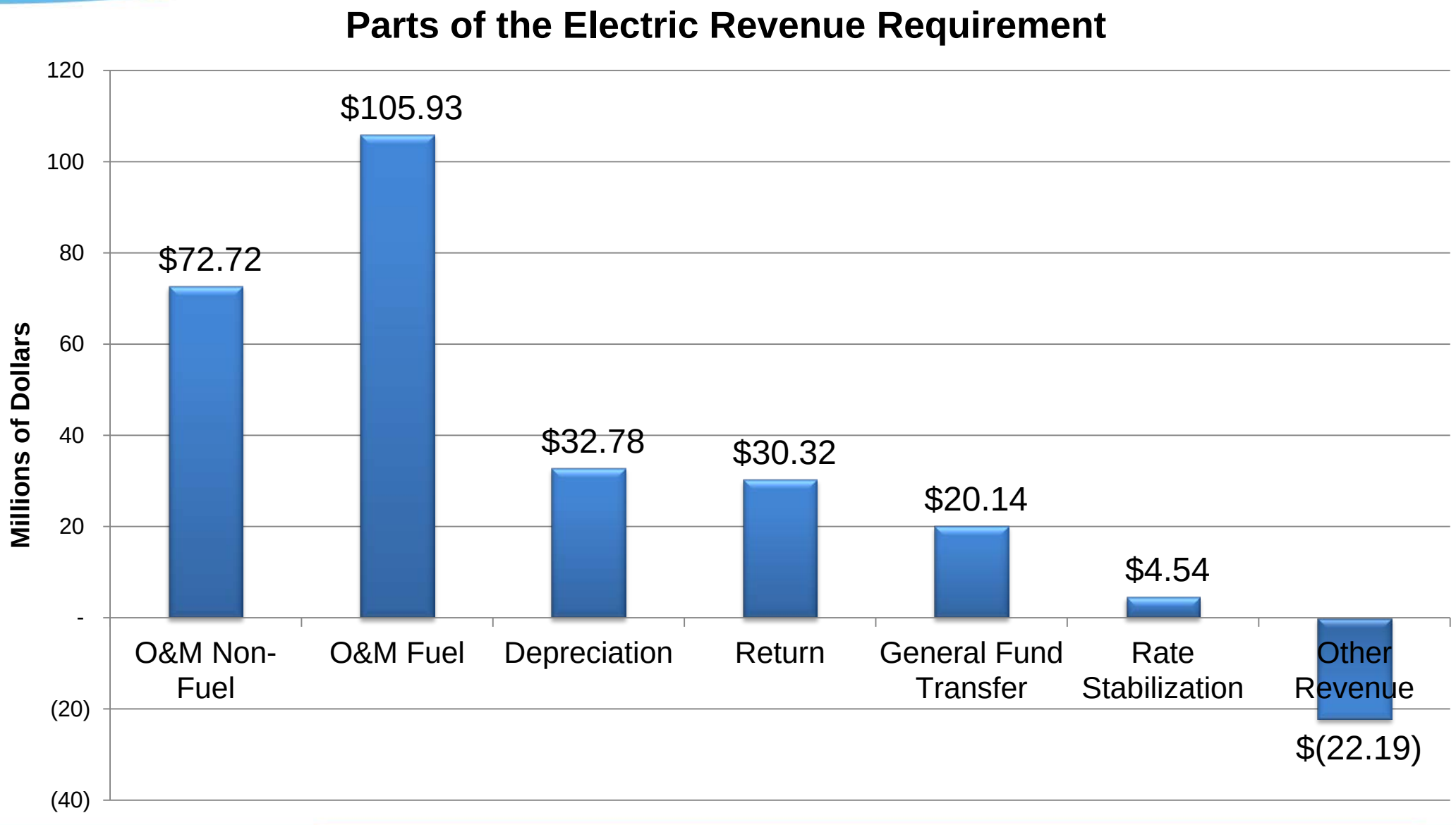

Electric Revenue Requirement

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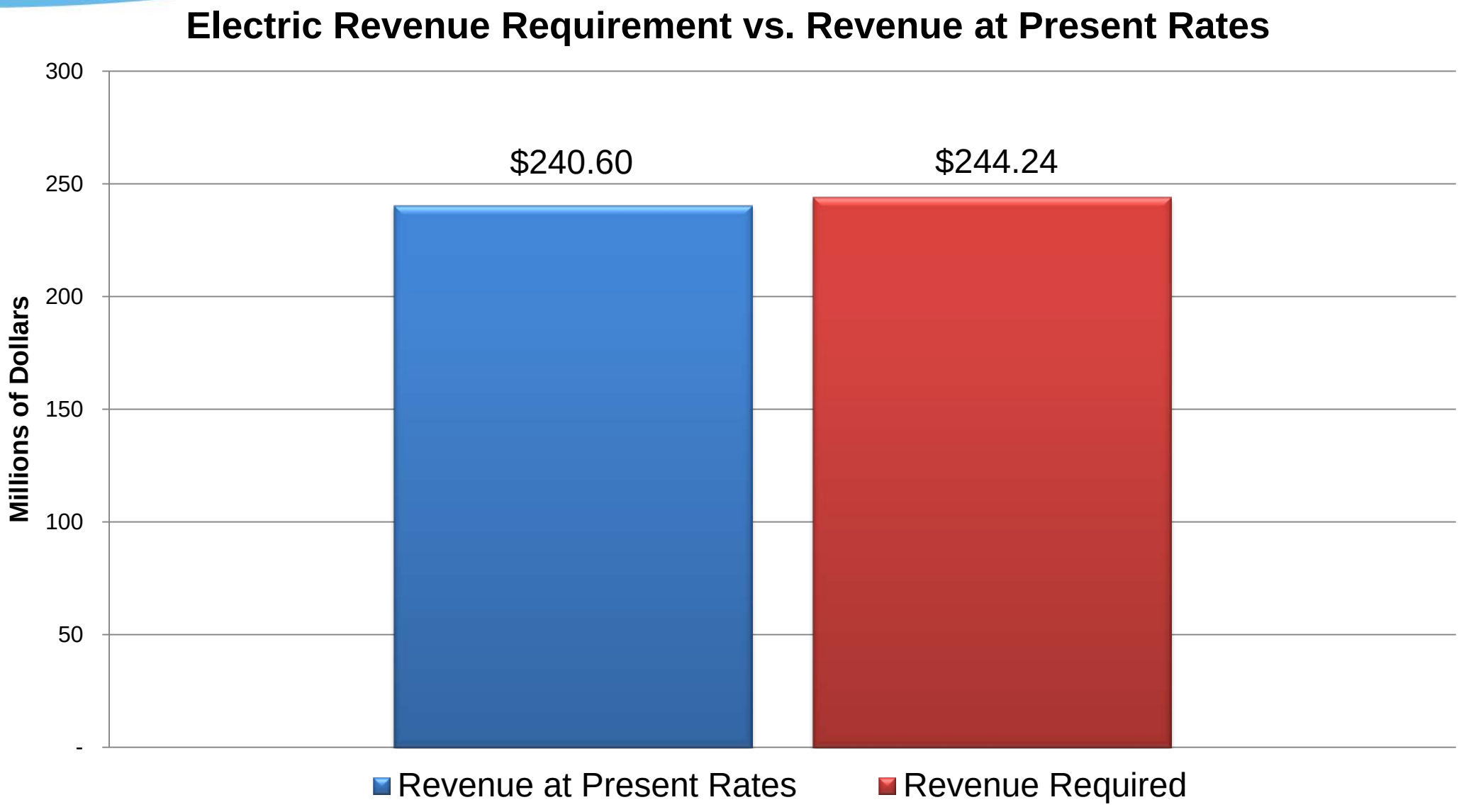

Water Revenue Requirement

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	Forecasted 2013
Revenue from Rates	$ 28,867,577
Revenue at Present Rates	***28,867,577***
Operations and Maintenance	14,900,744
Depreciation	6,334,825
Return	6,914,203
Transfer to the General Fund	5,824,749
Transfer to Rate Stabilization Fund	98,346
Other Revenue	(5,394,399)
Revenue Required	***28,678,468***
Difference	***$ (189,109)***
Percent Difference	***-0.66%***

Water Revenue Requirement

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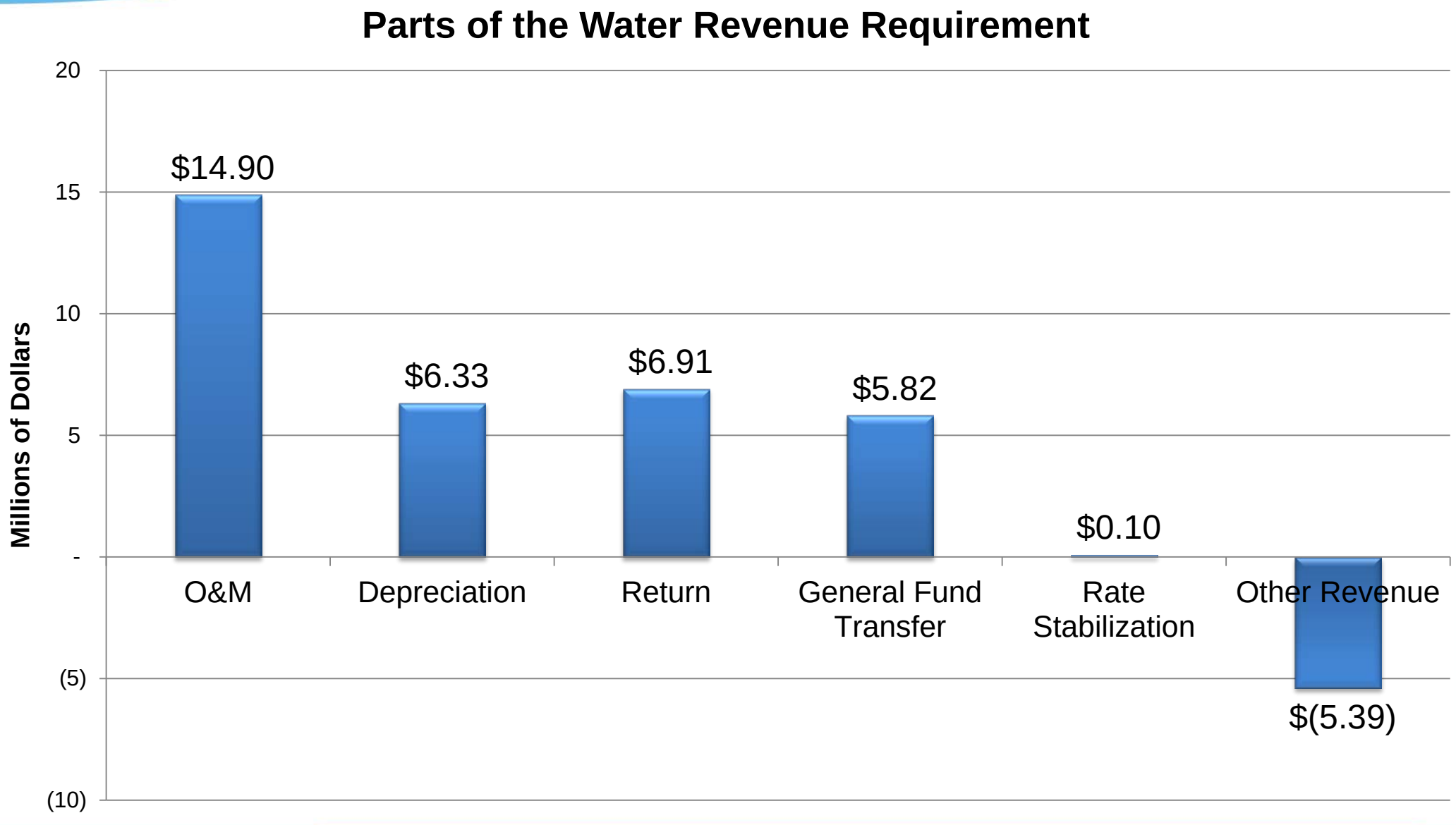

Water Revenue Requirement

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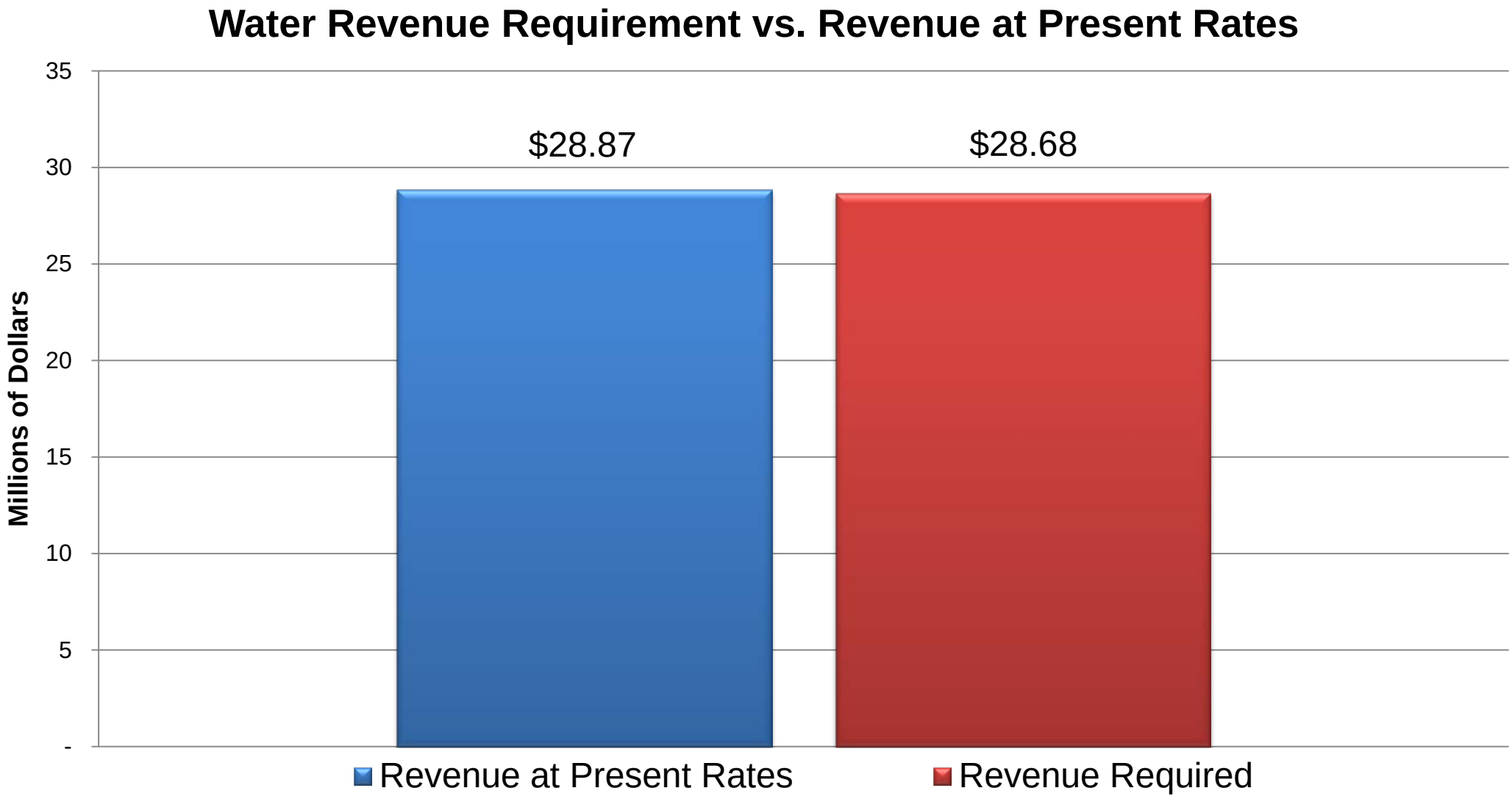

Wastewater Revenue Requirement

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	Forecasted 2013
Revenue from Rates	$ 32,151,895
Revenue at Present Rates	***32,151,895***
O&M	15,434,312
Depreciation	8,096,231
Return	8,106,396
General Fund Transfer	7,770,189
Rate Stabilization	(1,338,392)
Other Revenue	(5,604,433)
Revenue Required	***32,464,303***
Rate Change Required	***$ 312,408***
Percent Change	***0.97%***

Wastewater Revenue Requirement

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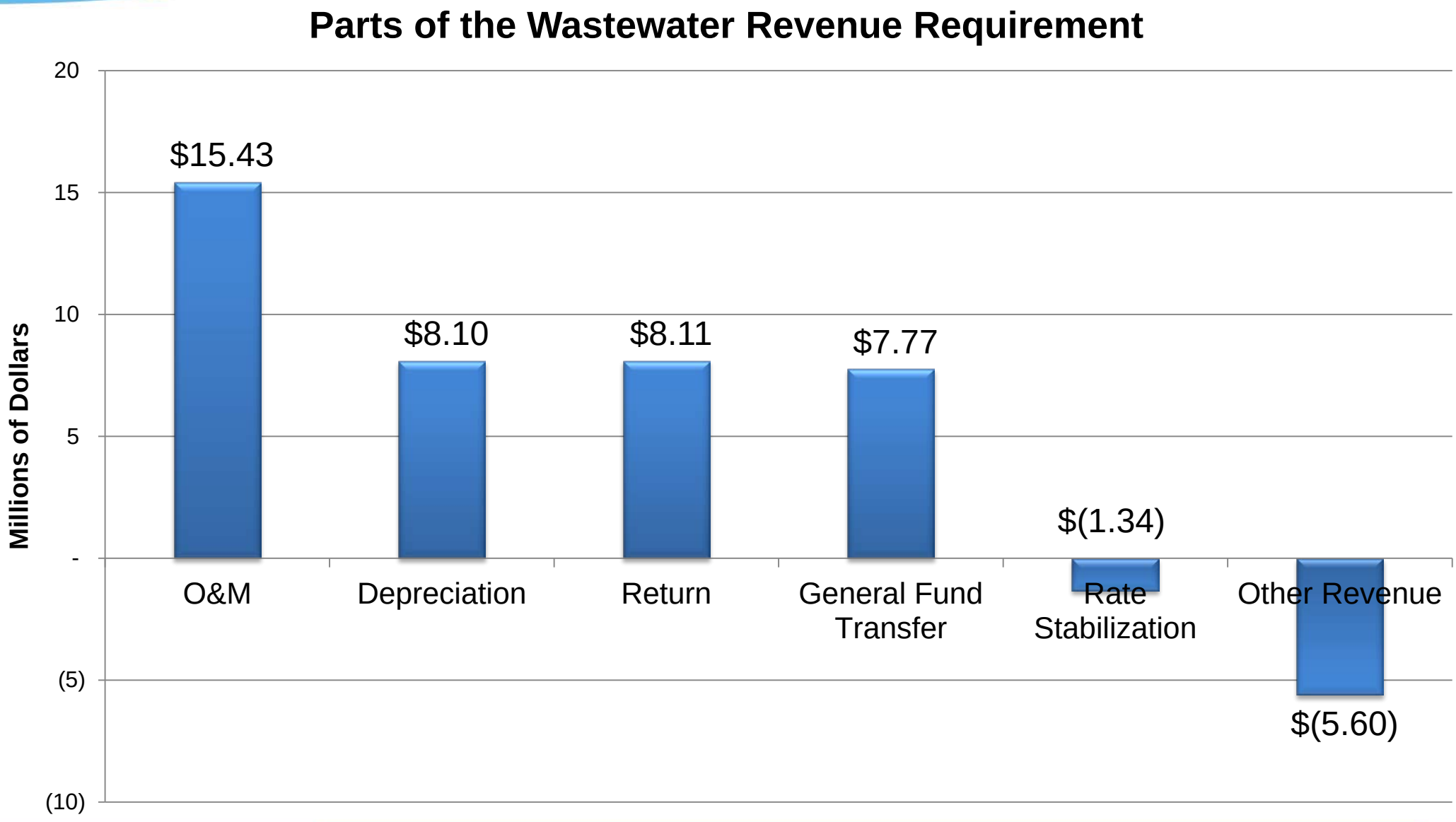

Wastewater Revenue Requirement

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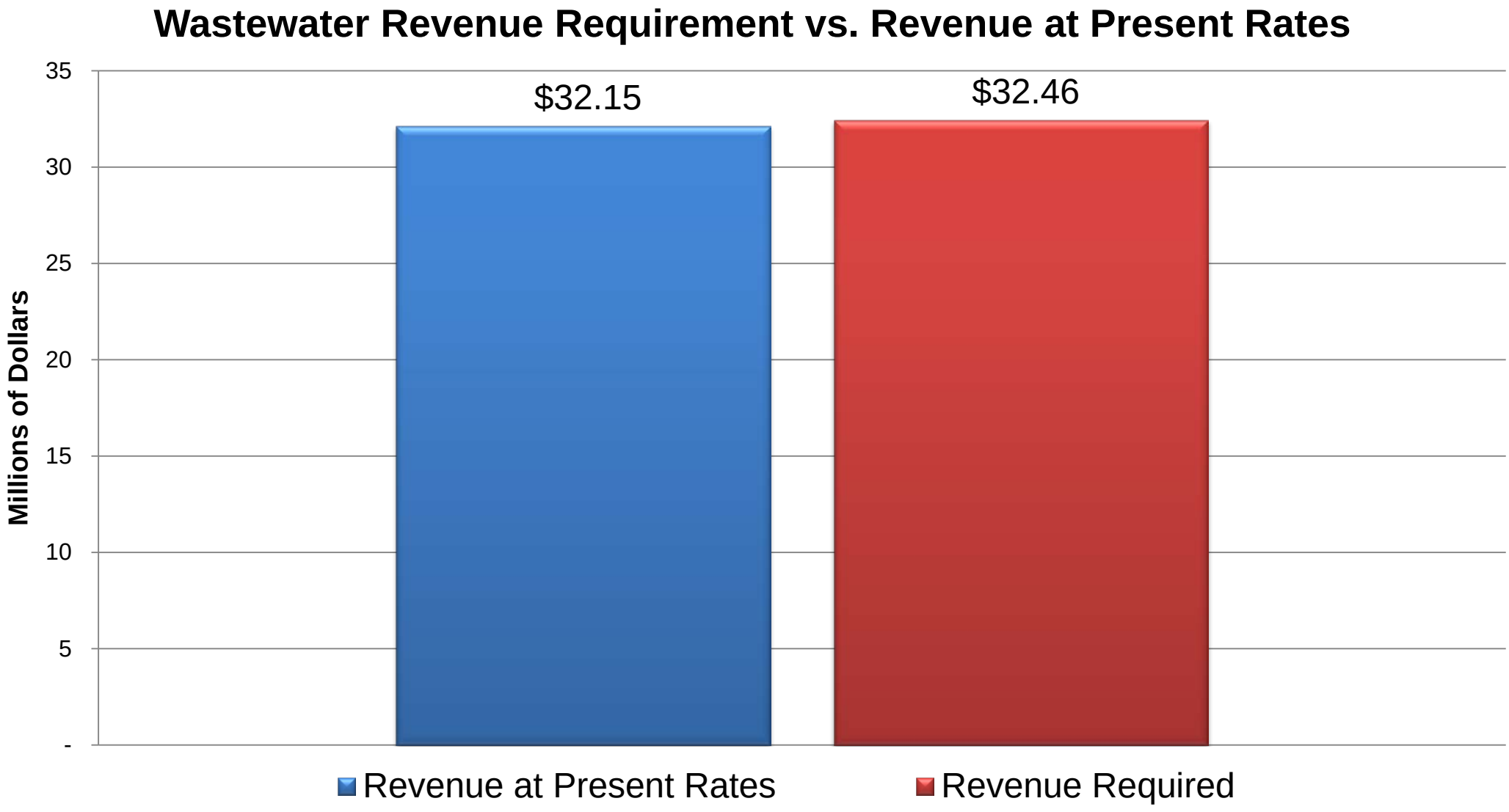

Natural Gas Revenue Requirement

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	Forecasted 2013
Revenue from Rates	$ 11,358,151
Gas Adjustment (incl Embedded)	13,880,041
Gas Transport Service	331,799
Manufactured Gas Adjustment	1,051,820
Revenue at Present Rates	***26,621,811***
Operations and Maintenance	19,877,609
Depreciation	2,766,481
Return	5,322,122
General Fund Transfer	2,539,681
Rate Stabilization	(939,821)
Other Revenue	(2,508,986)
Revenue Required	***27,057,086***
Difference	***$ 435,275***
Percent Difference	***1.64%***

Natural Gas Revenue Requirement

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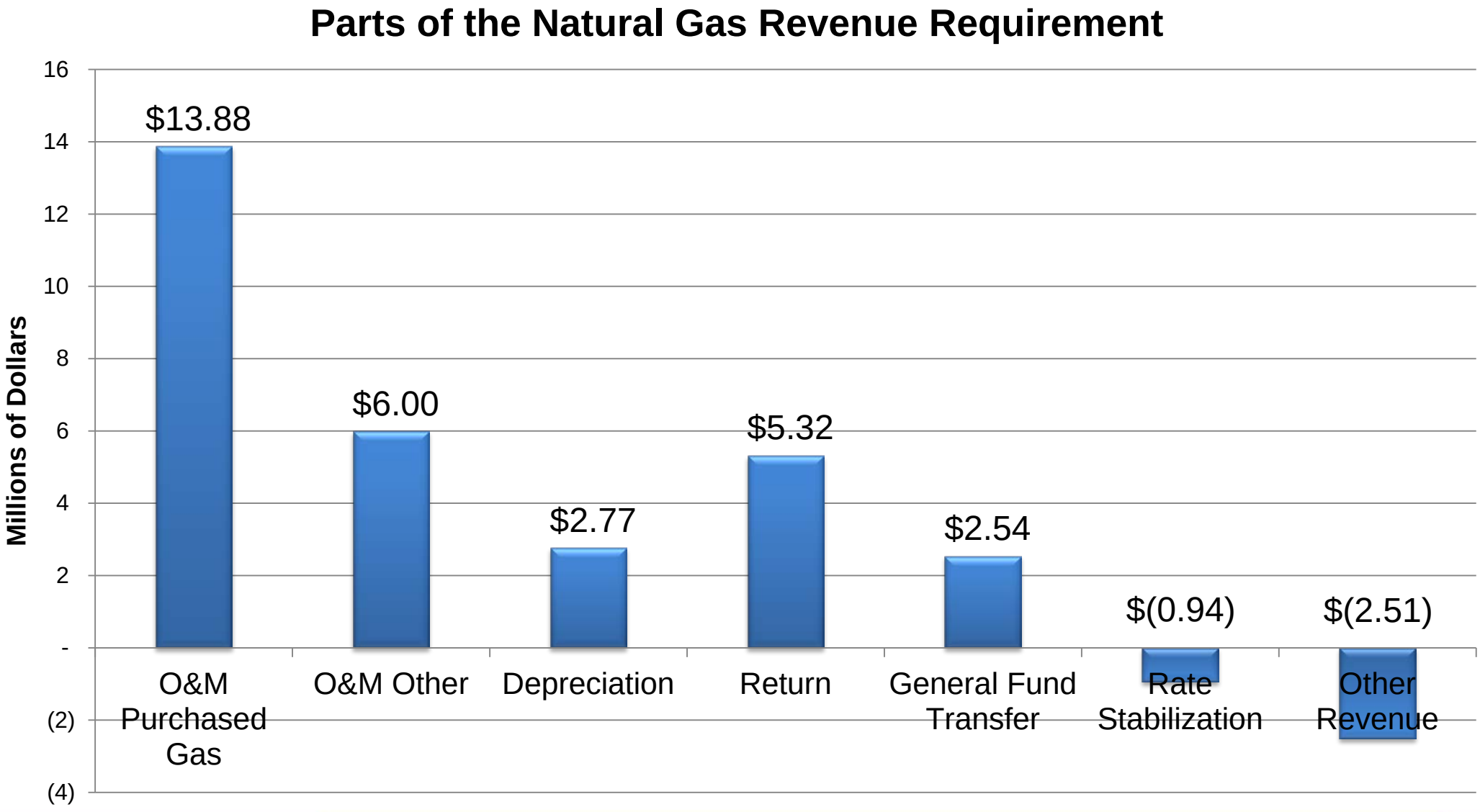

Natural Gas Revenue Requirement

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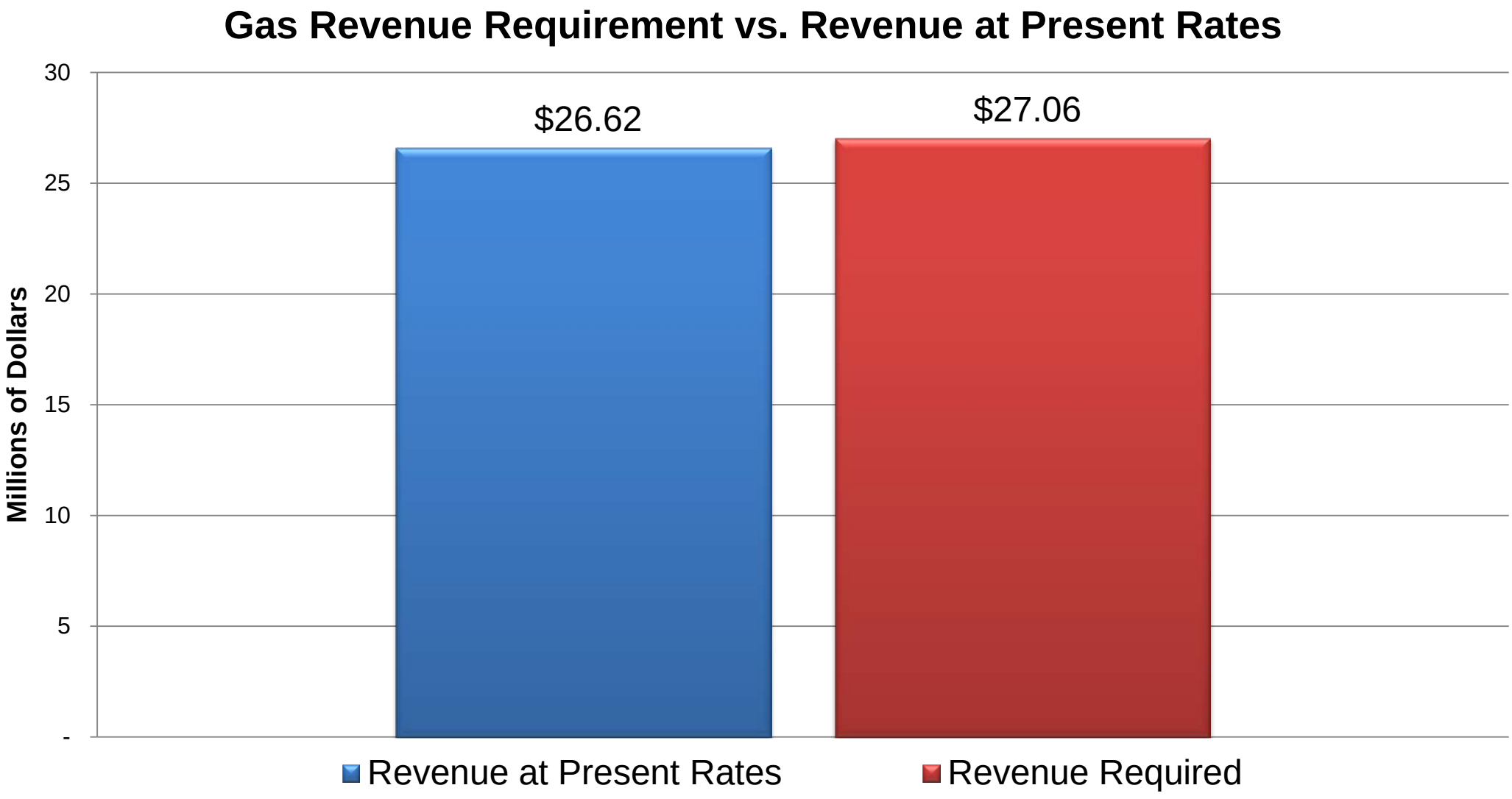

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Take Away Point for Revenue Requirement

Revenue at present rates is close to revenue required for all utility services.

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Cost of Service Study

What is a cost of service study?

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The cost of service study assigns utility costs to customer classes.

Industry standard cost of service principles dictate that each customer should pay the costs caused by that customer.

How does Baker Tilly perform a cost of service study?

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Use industry standard average embedded cost approach

Break apart costs by function.

Assign each cost function to the customer classes driving the cost

Fuel cost allocated on the energy consumed by each class.

Electric Cost of Service

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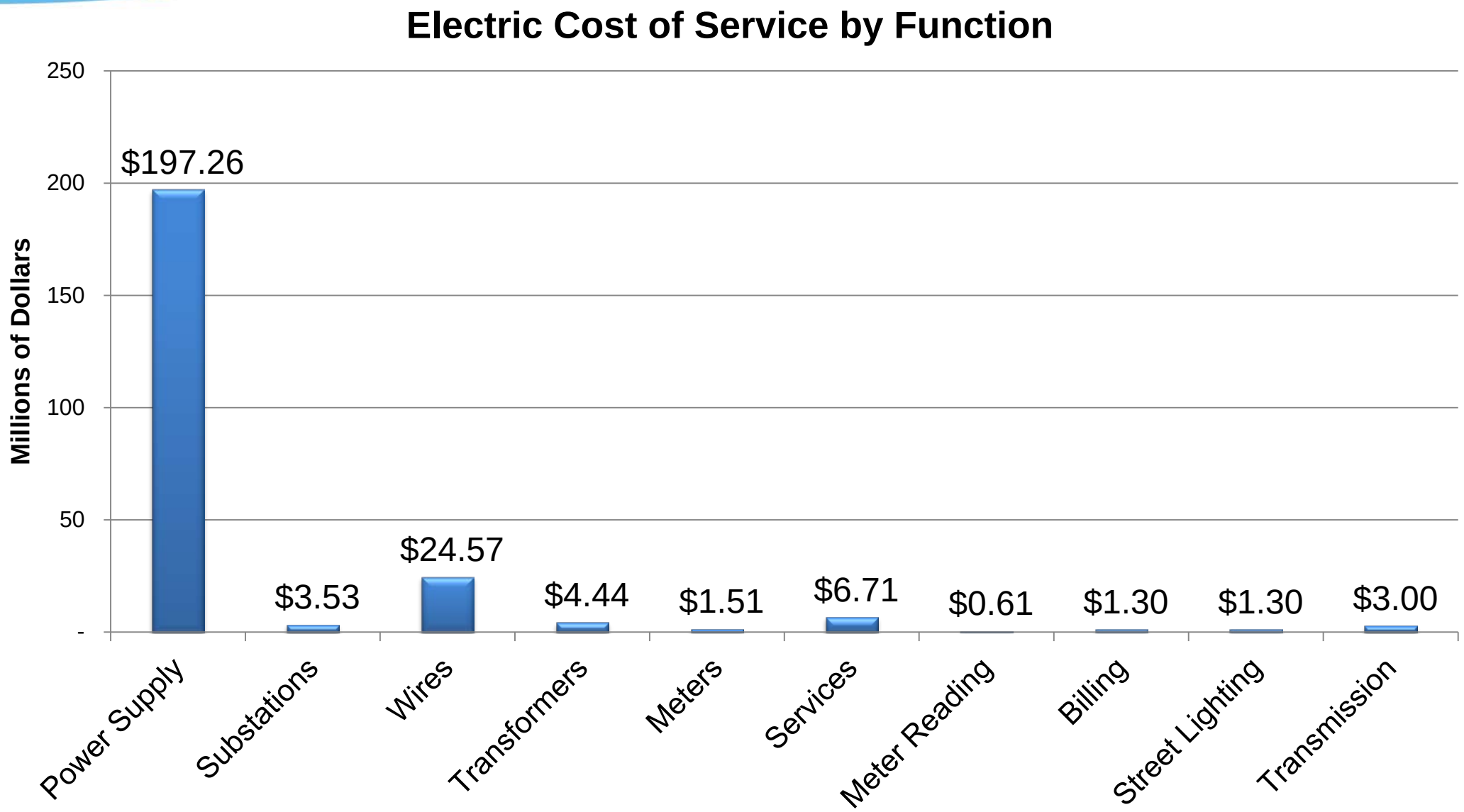

Electric Cost of Service

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Cost Function	Forecasted 2013
Power Supply	$ 197,263,683
Substations	3,527,173
Wires	24,567,766
Transformers	4,443,394
Meters	1,505,607
Services	6,710,557
Meter Reading	612,029
Billing	1,298,841
Street Lighting	1,304,586
Transmission	3,004,771
Electric Cost of Service	***$ 244,238,407***

Electric Cost of Service

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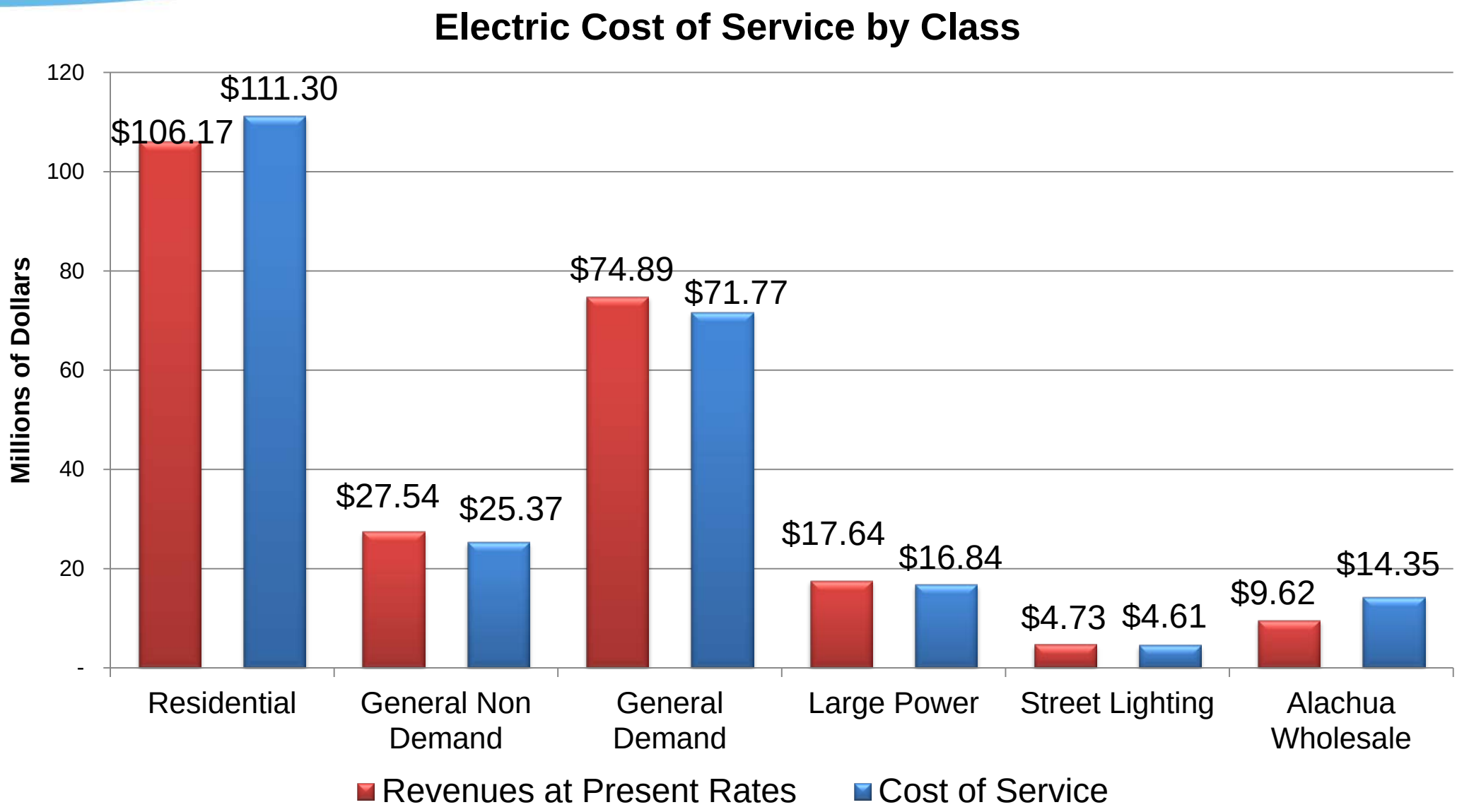

Electric Cost of Service

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Customer Class	Cost of Service	Revenues at Present Rates	Difference	Percent Difference
Residential	$ 111,298,200	$ 106,171,746	$ 5,126,454	4.83%
General Non Demand	25,369,669	27,541,042	(2,171,373)	-7.88%
General Demand	71,774,938	74,893,057	(3,118,119)	-4.16%
Large Power	16,841,814	17,635,921	(794,107)	-4.50%
Street Lighting	4,605,061	4,733,980	(128,919)	-2.72%
Alachua Wholesale	14,348,725	9,622,912	4,725,813	49.11%
Total	***$ 244,238,407***	***$ 240,598,658***	***$ 3,639,749***	1.51%

Electric Cost of Service - Wholesale

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Does Alachua need a rate increase of $4,700,000?

Average Embedded Cost - Total cost of all infrastructure and expenses divided by the energy produced

Incremental Cost - Additional cost to produce the last kWh

As long as a customer pays at least its incremental cost, all ratepayers are better off.

Electric Cost of Service - Wholesale

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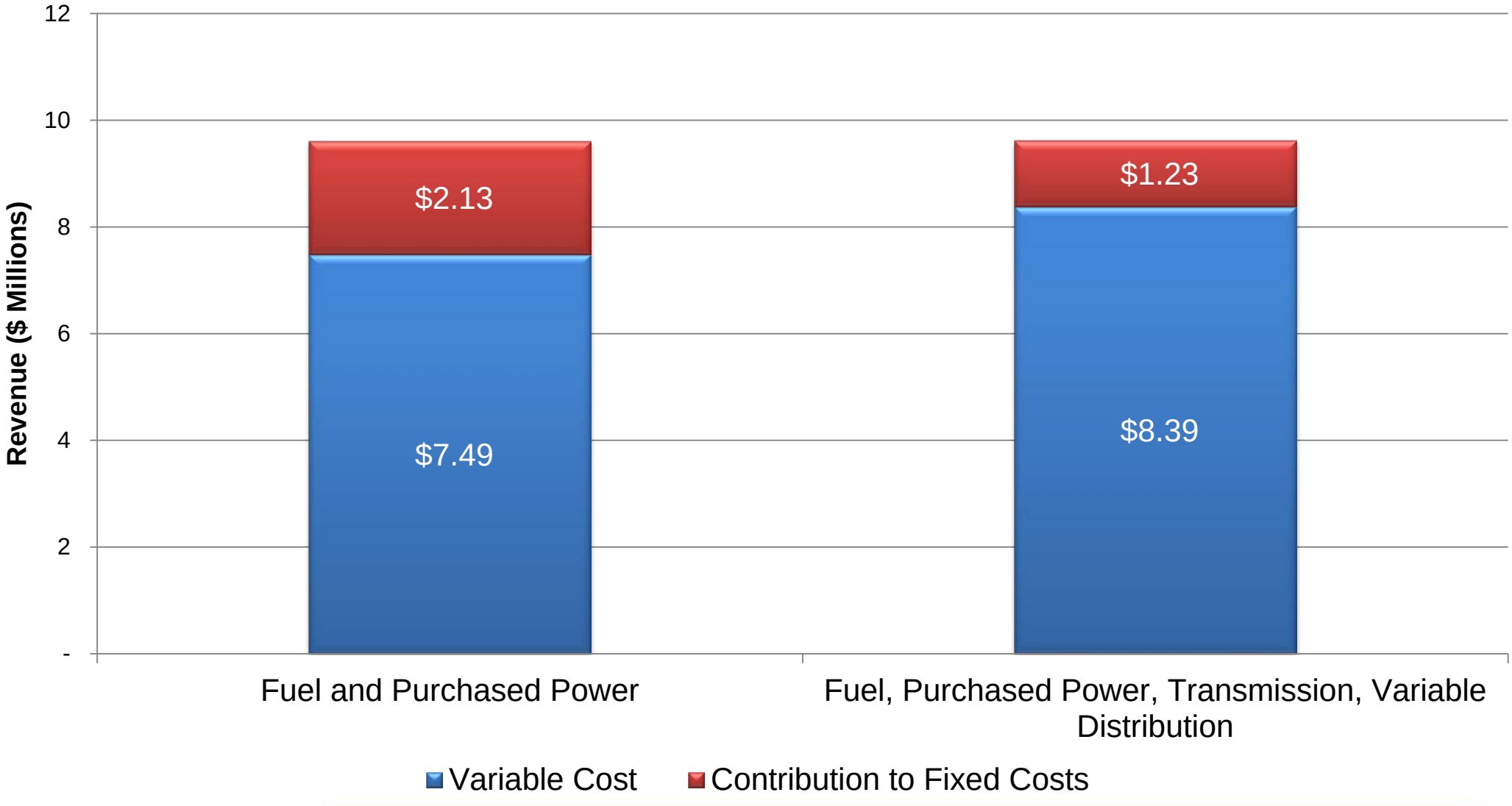
Incremental Cost of Wholesale Service to Alachua



Electric Cost of Service - Wholesale

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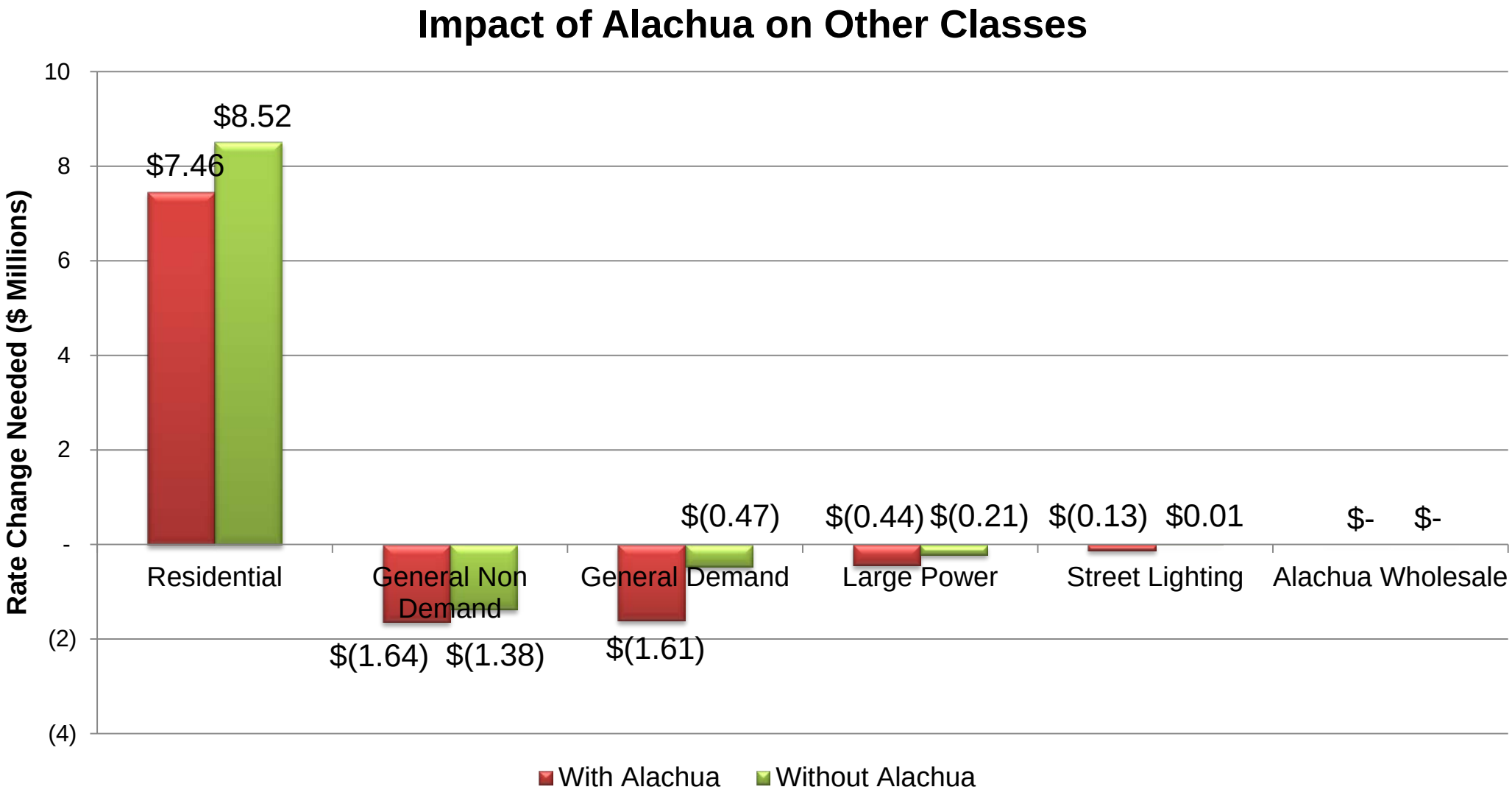

Water Cost of Service

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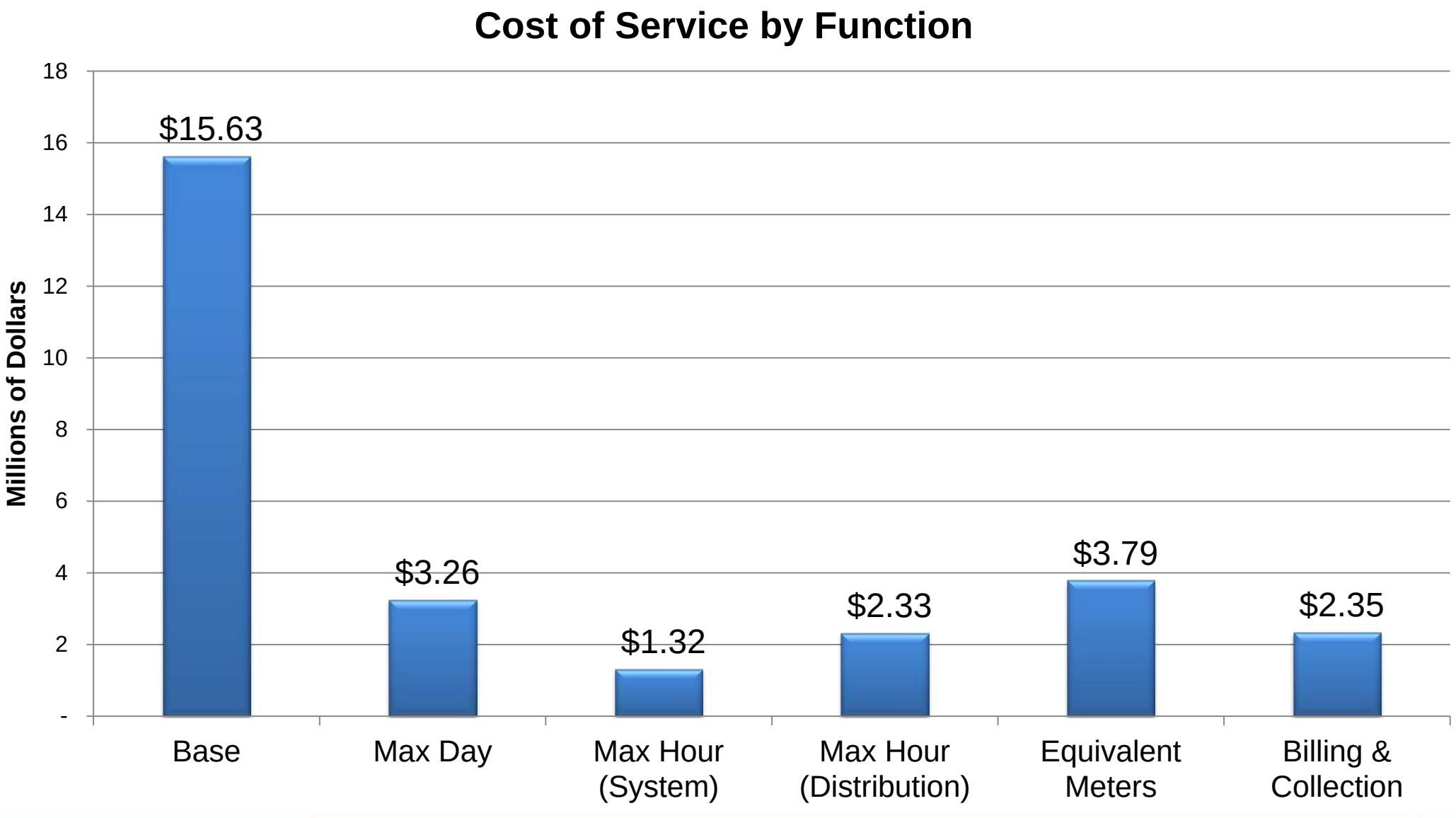

Water Cost of Service

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Cost Function	Forecasted 2013
Base	$ 15,628,990
Max Day	3,258,766
Max Hour (System)	1,323,241
Max Hour (Distribution)	2,325,789
Equivalent Meters	3,794,256
Billing & Collection	2,347,426
Water Cost of Service	***$ 28,678,468***

Water Cost of Service

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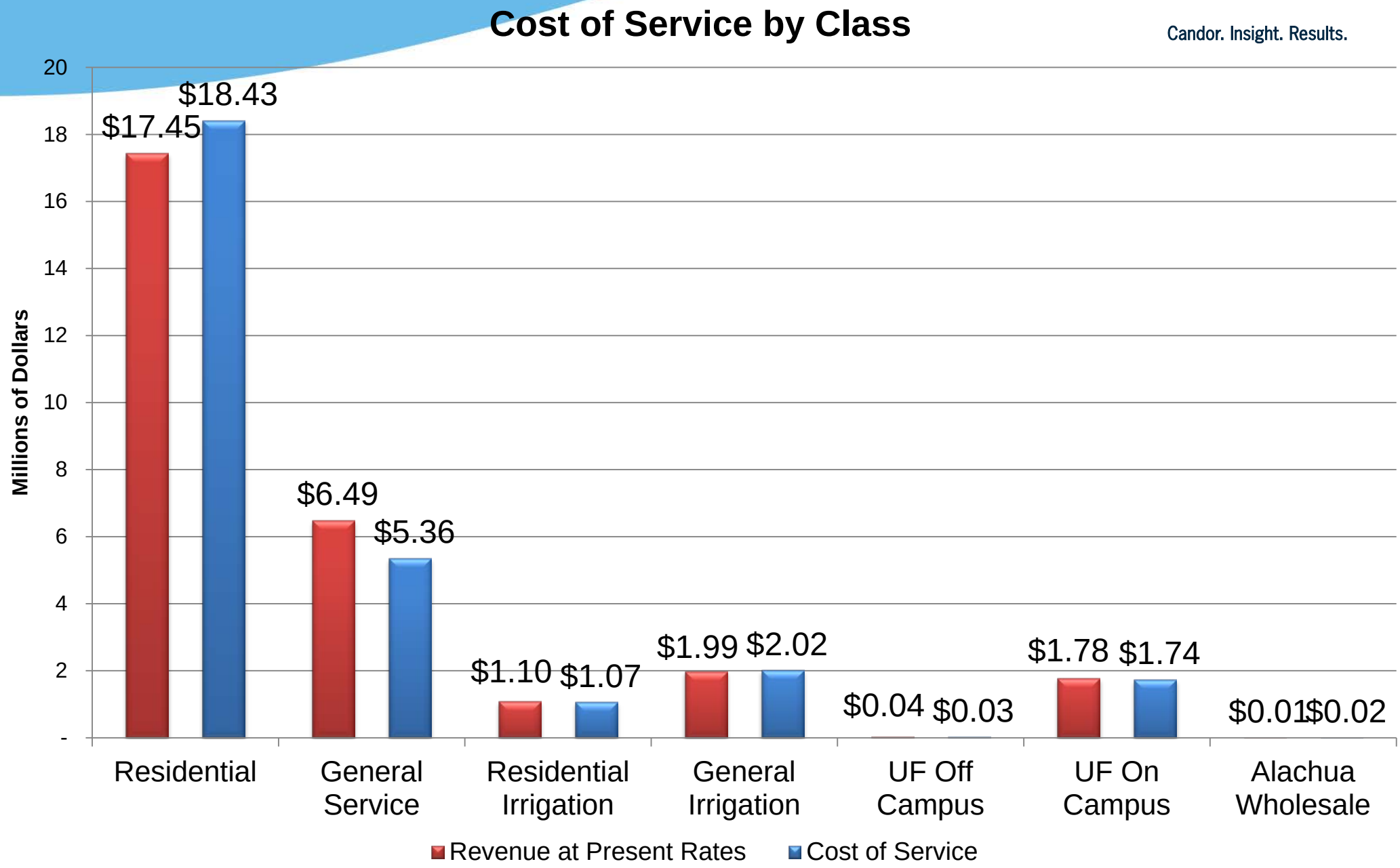

Water Cost of Service

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Customer Class	Cost of Service	Revenue at Present Rates	Difference	Percent Difference
Residential	$ 18,427,131	$ 17,454,237	$ 972,894	5.28%
General Service	5,363,646	6,492,146	(1,128,500)	-21.04%
Residential Irrigation	1,070,313	1,095,214	(24,901)	-2.33%
General Irrigation	2,019,491	1,991,199	28,292	1.40%
UF Off Campus	32,460	37,947	(5,487)	-16.90%
UF On Campus	1,743,960	1,784,400	(40,440)	-2.32%
Alachua Wholesale	21,467	12,434	9,033	42.08%
Total	***$ 28,678,468***	***$ 28,867,577***	***$ (189,109)***	-0.66%

Wastewater Cost of Service

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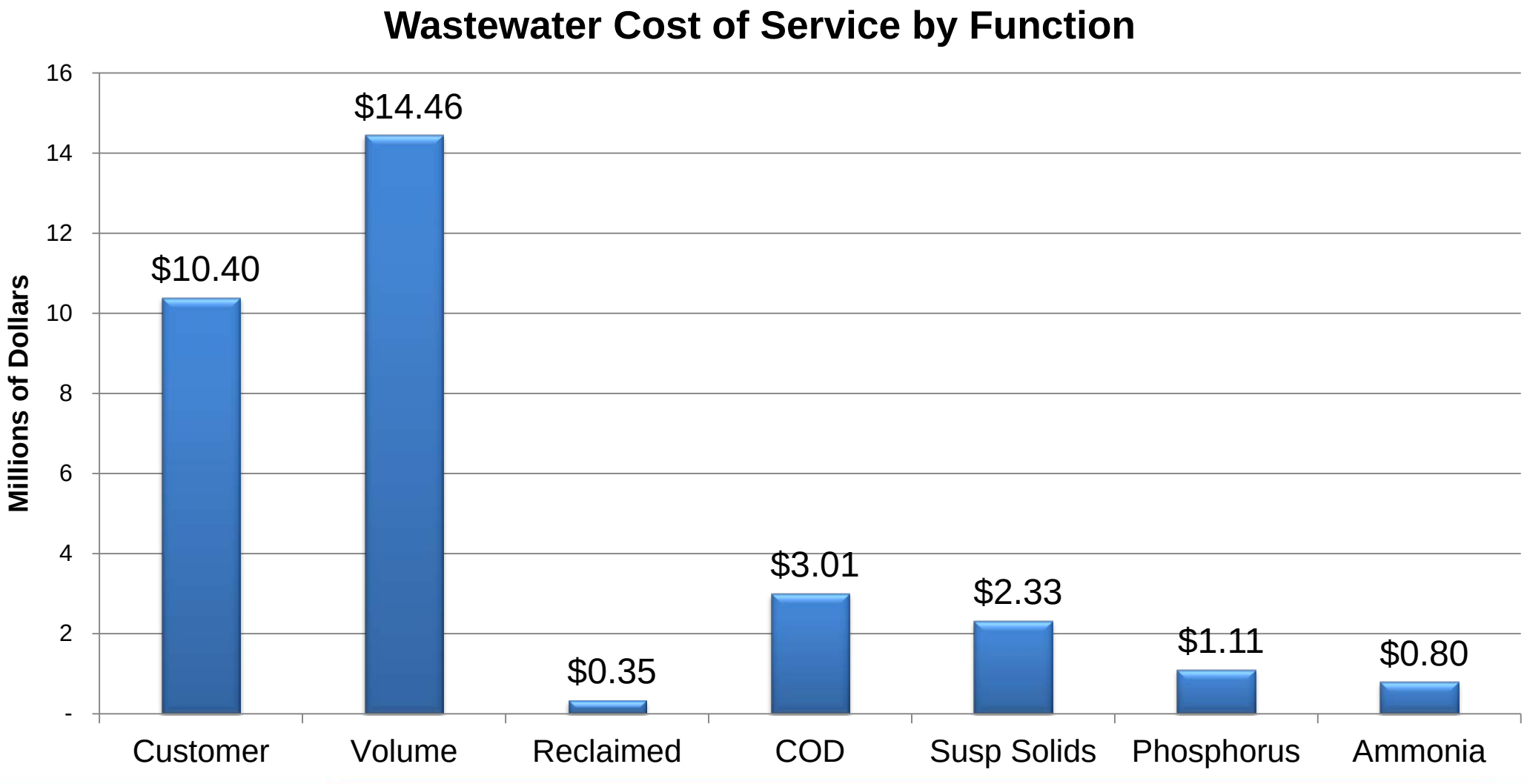

Wastewater Cost of Service

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Cost Function	Forecasted 2013
Customer	$ 10,400,049
Volume	14,458,103
Reclaimed Water	354,572
Chemical Oxygen Demand	3,009,311
Suspended Solids	2,326,117
Phosphorus	1,112,109
Ammonia	804,041
Wastewater Cost of Service	***$ 32,464,302***

Wastewater Cost of Service

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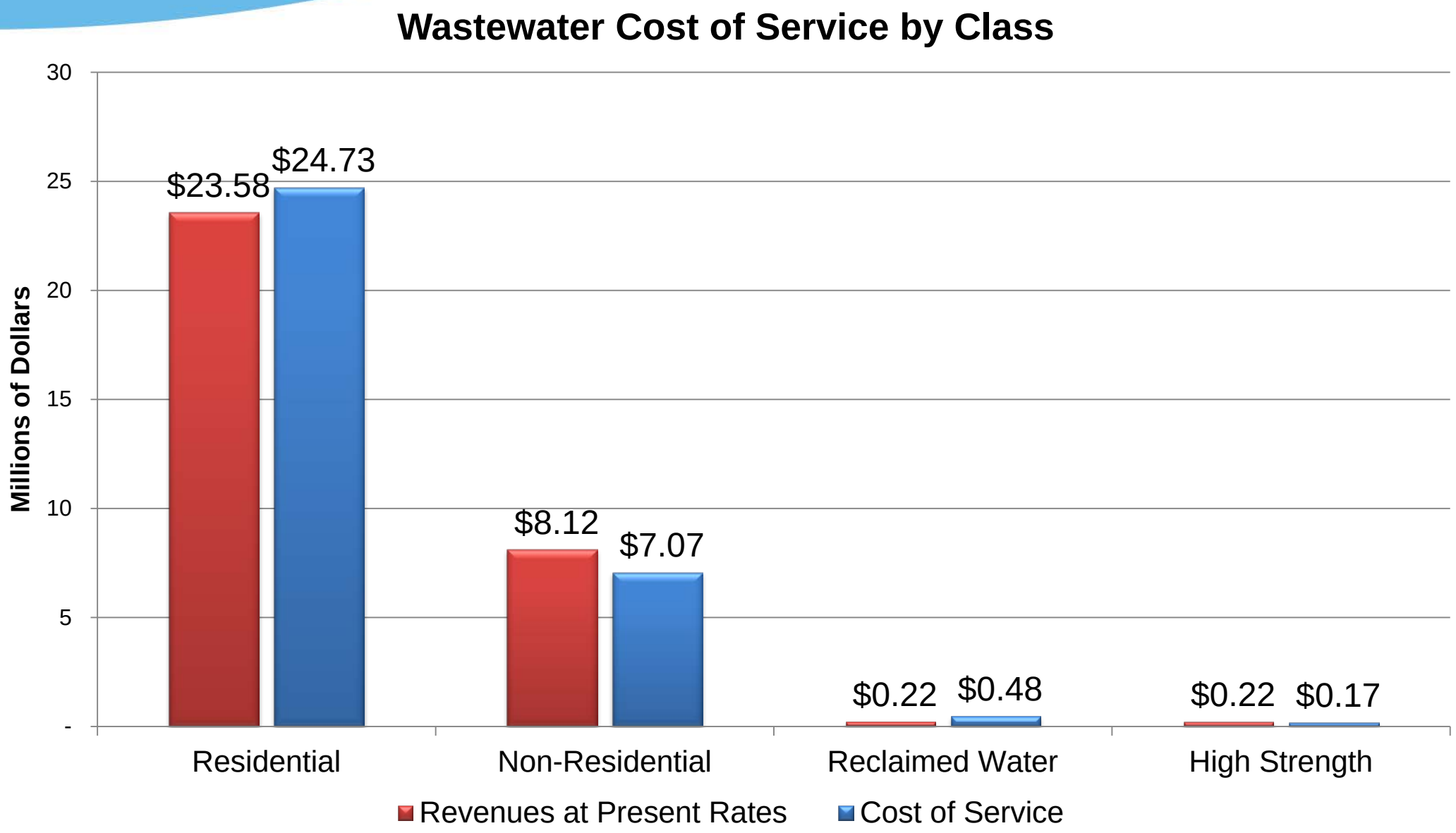

Wastewater Cost of Service

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Customer Class	Cost of Service	Revenues at Present Rates	Difference	Percent Difference
Residential	$ 24,732,479	$ 23,580,996	$ 1,151,483	4.88%
Non-Residential	7,073,406	8,123,492	(1,050,086)	-12.93%
Reclaimed Water	484,872	224,699	260,173	115.79%
High Strength	173,545	222,707	(49,162)	-22.07%
Total	***$ 32,464,302***	***$ 32,151,894***	***$ 312,408***	***0.97%***

Natural Gas Cost of Service

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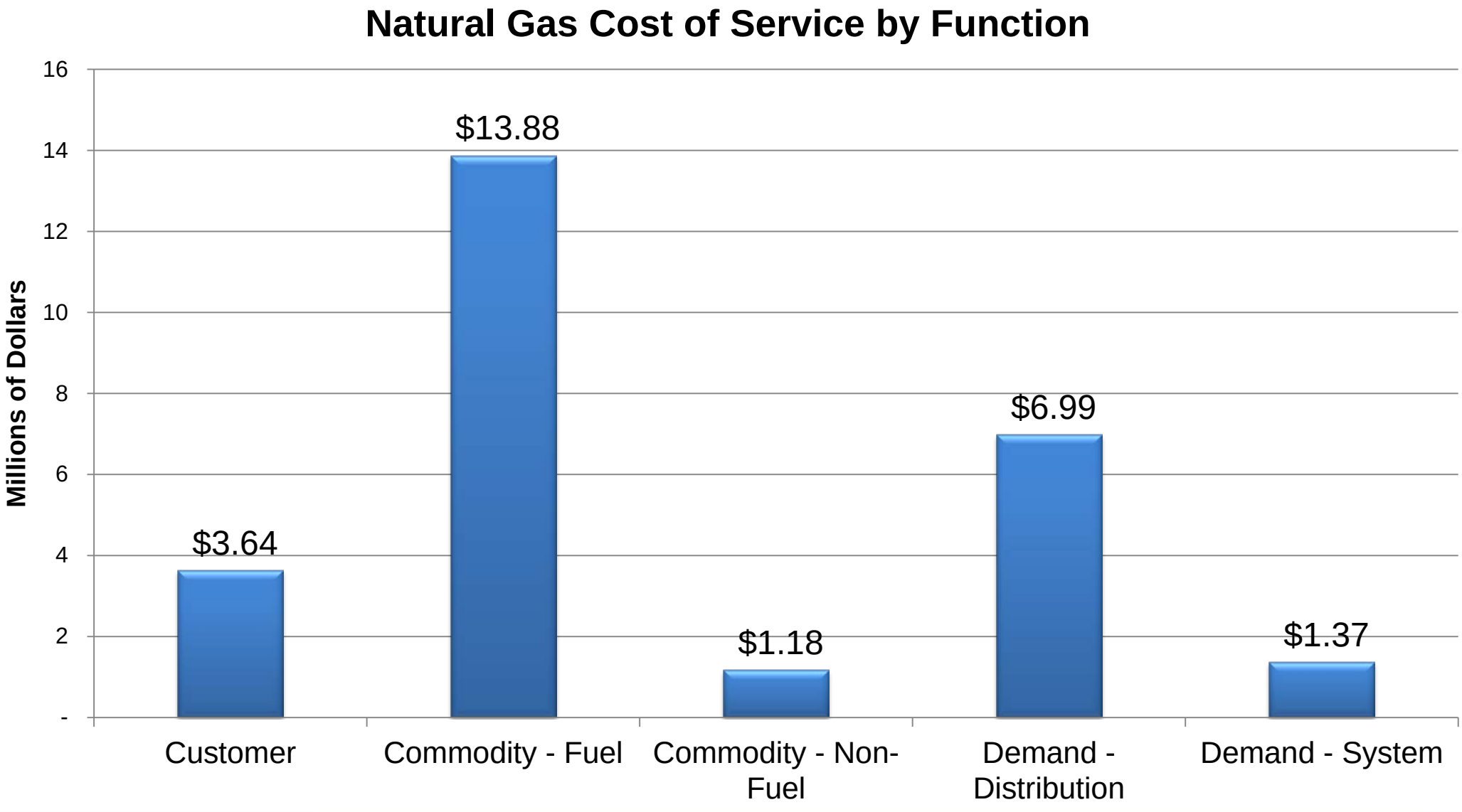

Natural Gas Cost of Service

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Cost Functions	Forecasted 2013
Customer	$ 3,639,937
Commodity - Fuel	13,880,082
Commodity - Non-Fuel	1,177,259
Demand - Distribution	6,988,305
Demand - System	1,371,503
Cost of Service	***$ 27,057,086***

Natural Gas Cost of Service

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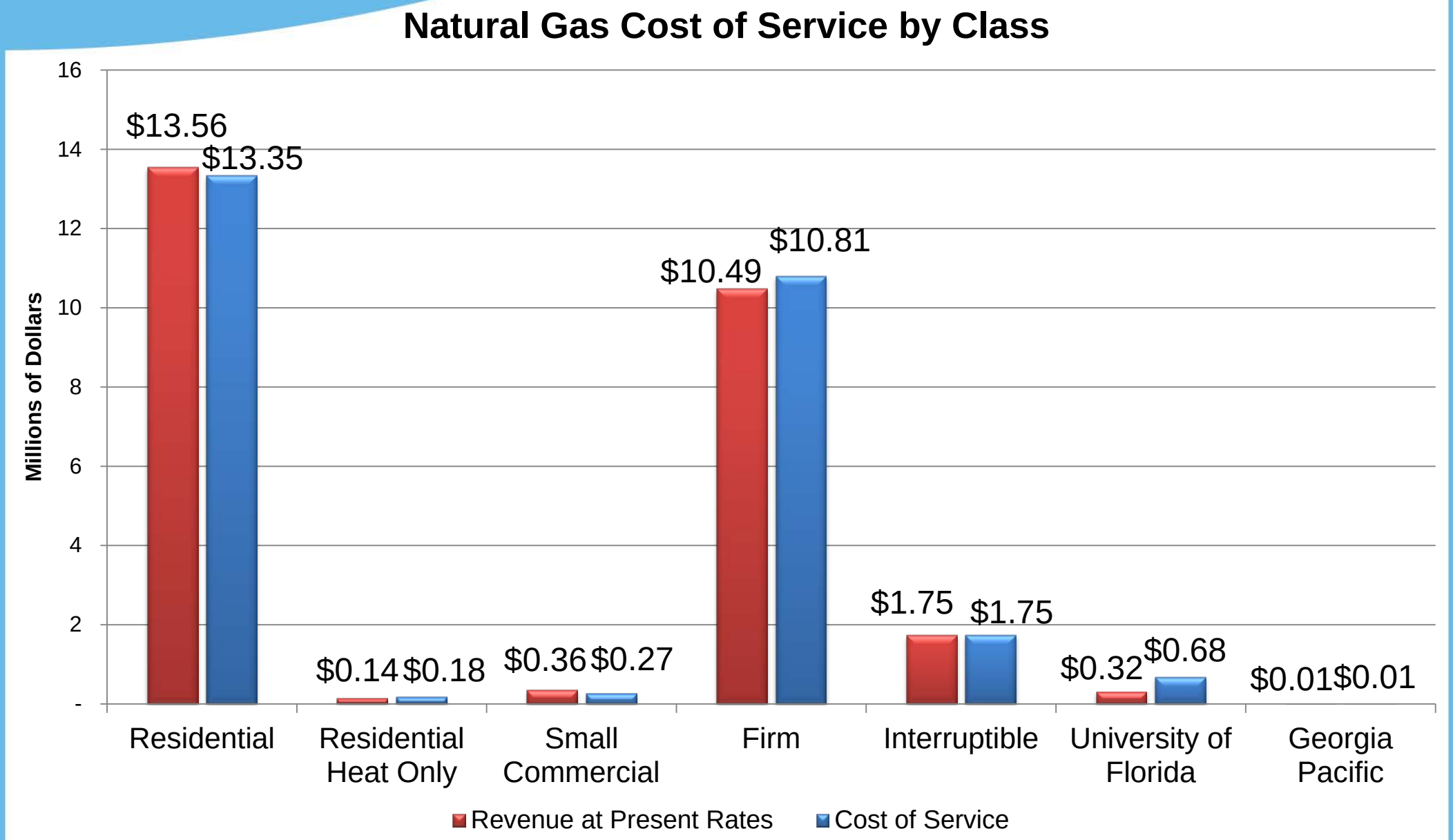

Natural Gas Cost of Service

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Customer Class	Cost of Service	Revenue at Present Rates	Difference	Percent Difference
Residential	$ 13,351,020	$ 13,555,472	$ (204,452)	-1.51%
Residential Heat Only	183,491	137,892	45,599	33.07%
Small Commercial	270,850	359,773	(88,923)	-24.72%
Firm	10,811,935	10,488,083	323,852	3.09%
Interruptible	1,749,661	1,748,792	869	0.05%
University of Florida	684,100	323,600	360,500	111.40%
Georgia Pacific	6,029	8,199	(2,170)	-26.47%
Total	***$ 27,057,086***	***$ 26,621,811***	***$ 435,275***	***1.64%***

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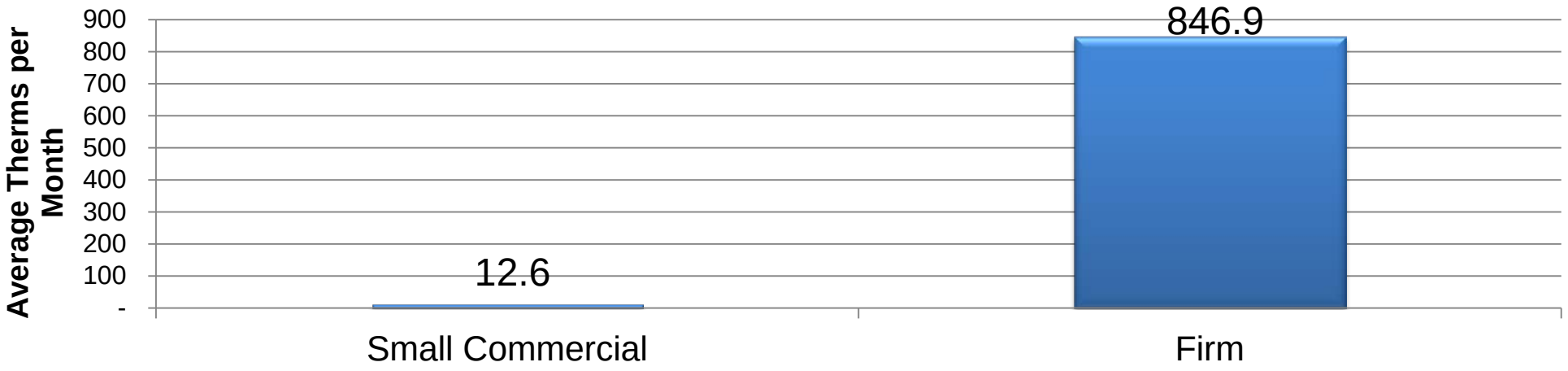
What is small commercial?

The general firm class spans very large and very small customers. Two separate classes may better reflect these differences.

Class	Annual Therms	Customer Months	Therms per Customer per Month
Small Commercial	95,372	7,576	12.6
Firm	10,149,330	11,984	846.9



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What is residential heat only?

A small number of residential customers only use natural gas for space heat in the winter and disconnect or have no use during the rest of the year.

GRU's current rates may recover less than the full cost to serve these customers.

Class	Average Month Therms	Peak Therms	Ratio
Residential	725,576	1,612,630	2.2
Residential Heat Only	6,375	33,997	5.3

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Take Away Points for Cost of Service

Rates are close to the cost of service for most customer classes.

GRU has options for addressing differences:

- Adjust rates now
- Adjust rates in the future
- Tolerate small imbalances

Alachua electric revenue is greater than incremental cost.

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Rate Design

How does Baker Tilly design rates?

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Divide customer costs by the number of customers.
Divide energy costs by the number of kWh.
Divide demand costs by the number of kW.

Other considerations:

- Continuity with existing rates
- Fairness to customers
- Promotion of efficient use
- Straightforward
- Based on costs
- Contractual obligations

Tiered rates add complexity, but may make rates more fair and promote efficient use.

How does Baker Tilly design rates?

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A single rate study is a snapshot of the utility for a single year.

A cost of service study points to the direction of the trend.

The best practice is to look for a consistent pattern in a series of rate studies before changing rates.

Electric Rate Design

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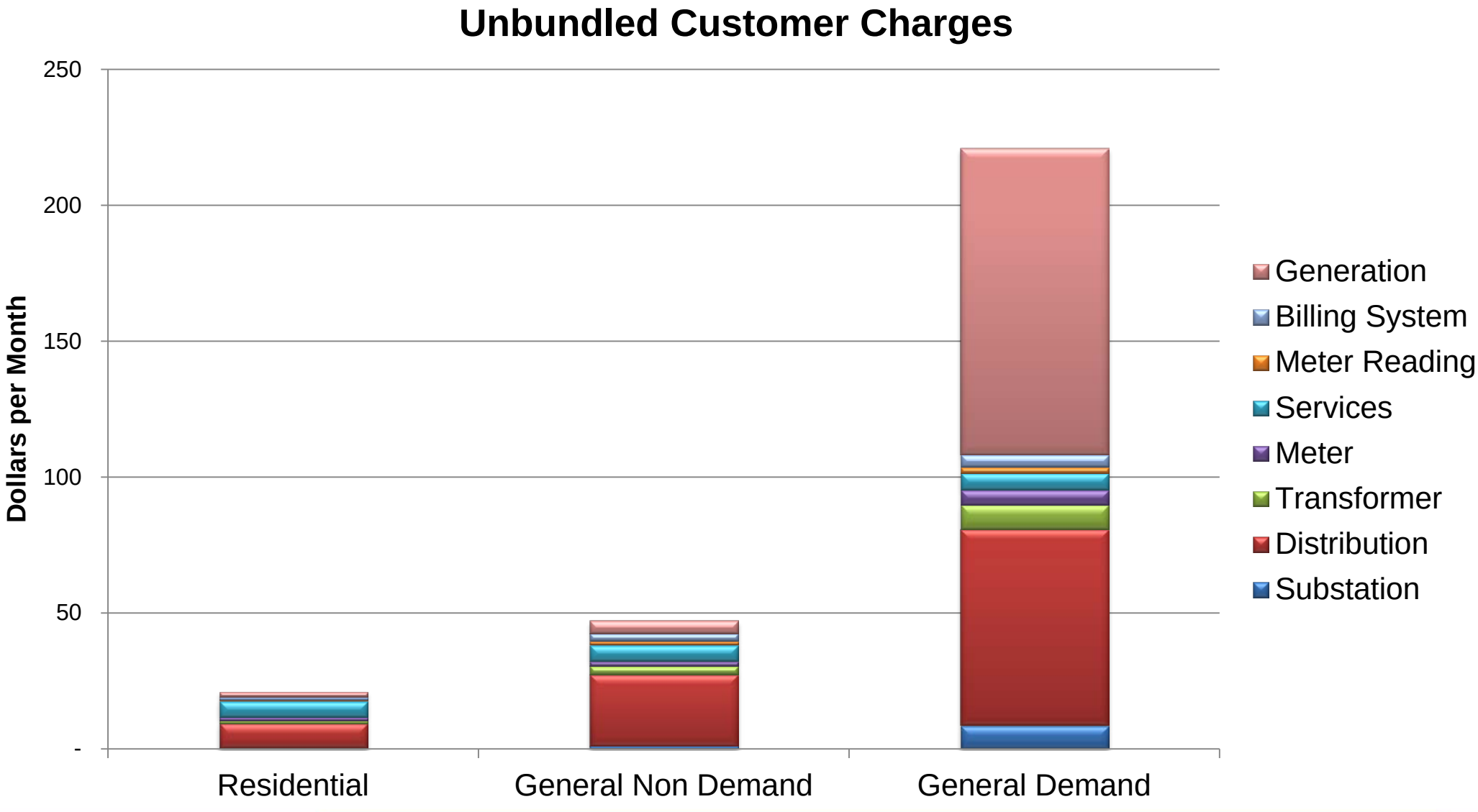

Electric Rate Design - Customer Charges

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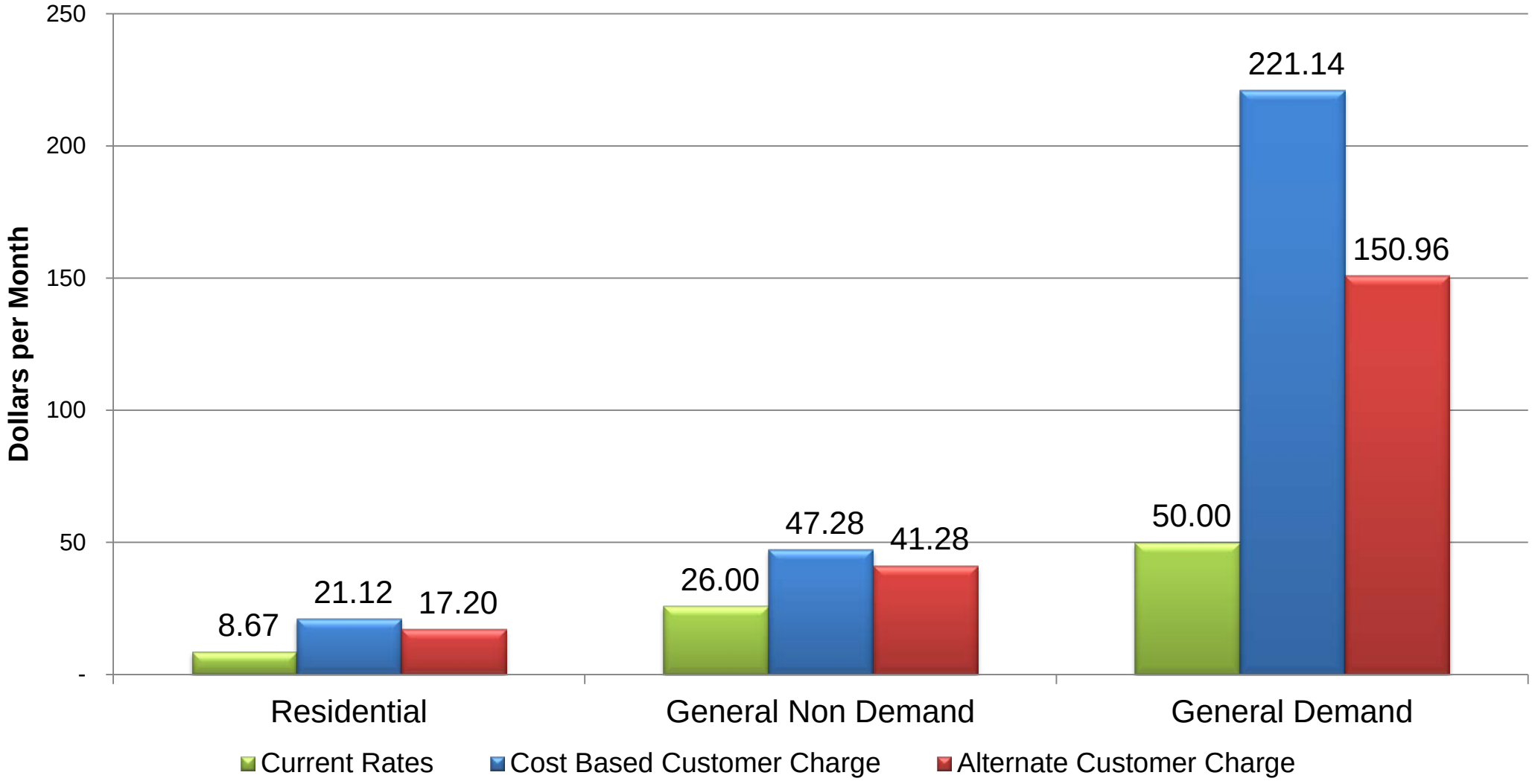
Current and Cost Based Customer Charges



Electric Rate Design - Customer Charges

BAKER TILLY

Candor. Insight. Results.

Electric Customer Charges

	Current Rates	Cost Based Rates	Alternate Rates
Residential	8.67	21.12	17.20
General Non Demand	26.00	47.28	41.28
General Demand	50.00	221.14	150.96
Large Power	300.00	3,386.14	1,758.31
Alachua Wholesale	300.00	31,284.82	300.00

Electric Rate Design - Customer Charges

BAKER TILLY

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Why does Baker Tilly calculate such high customer charges?

Wires, a pole, a transformer, a service lateral, and a meter are required to connect a customer.
Even a customer who uses no electricity.

Throughout the industry, utilities are moving toward higher customer charges to recover these costs.

Higher customer charges mean revenues vary less when sales change.

Electric Rate Design

BAKER TILLY

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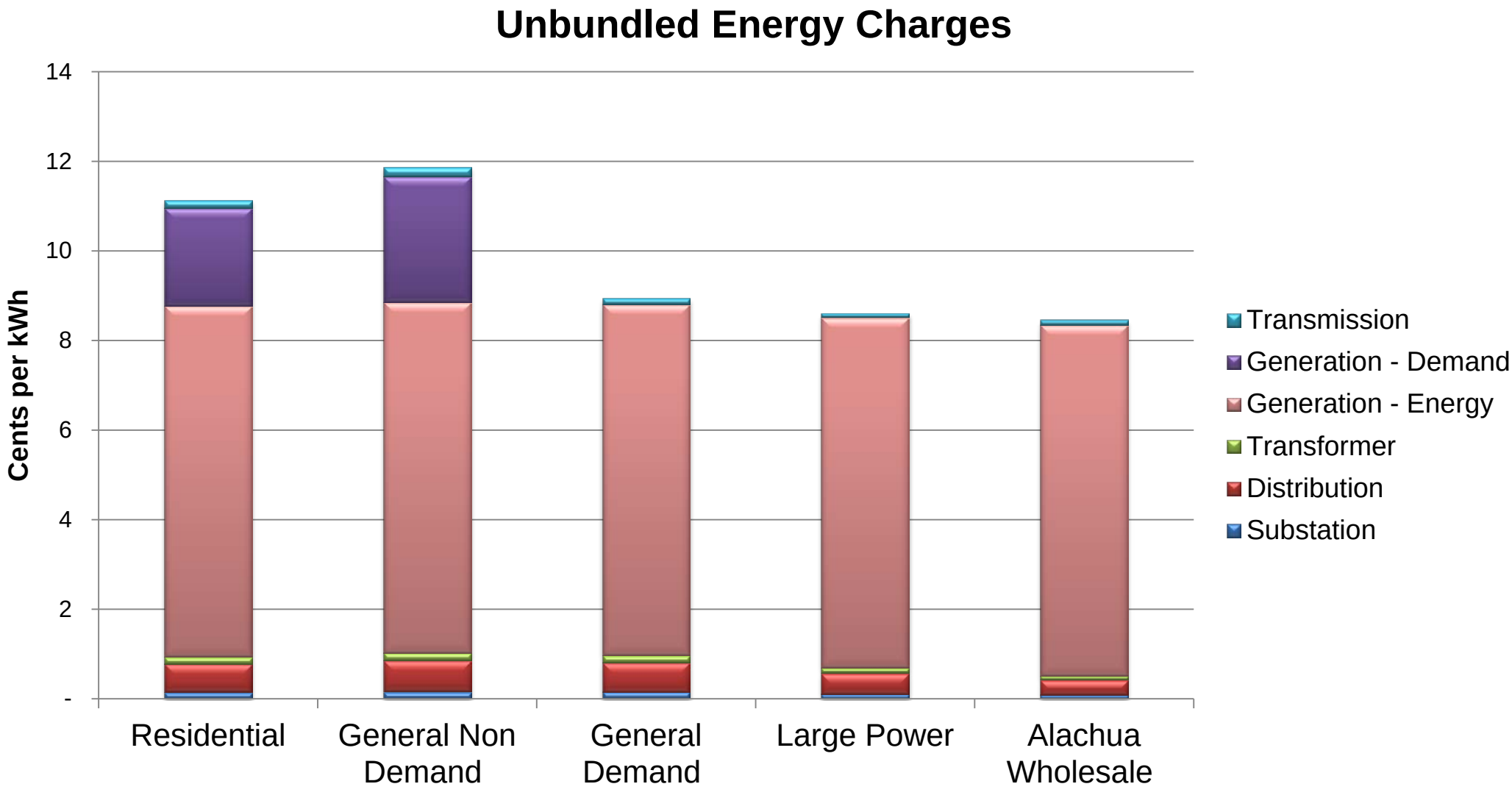

Electric Rate Design - Demand Charges

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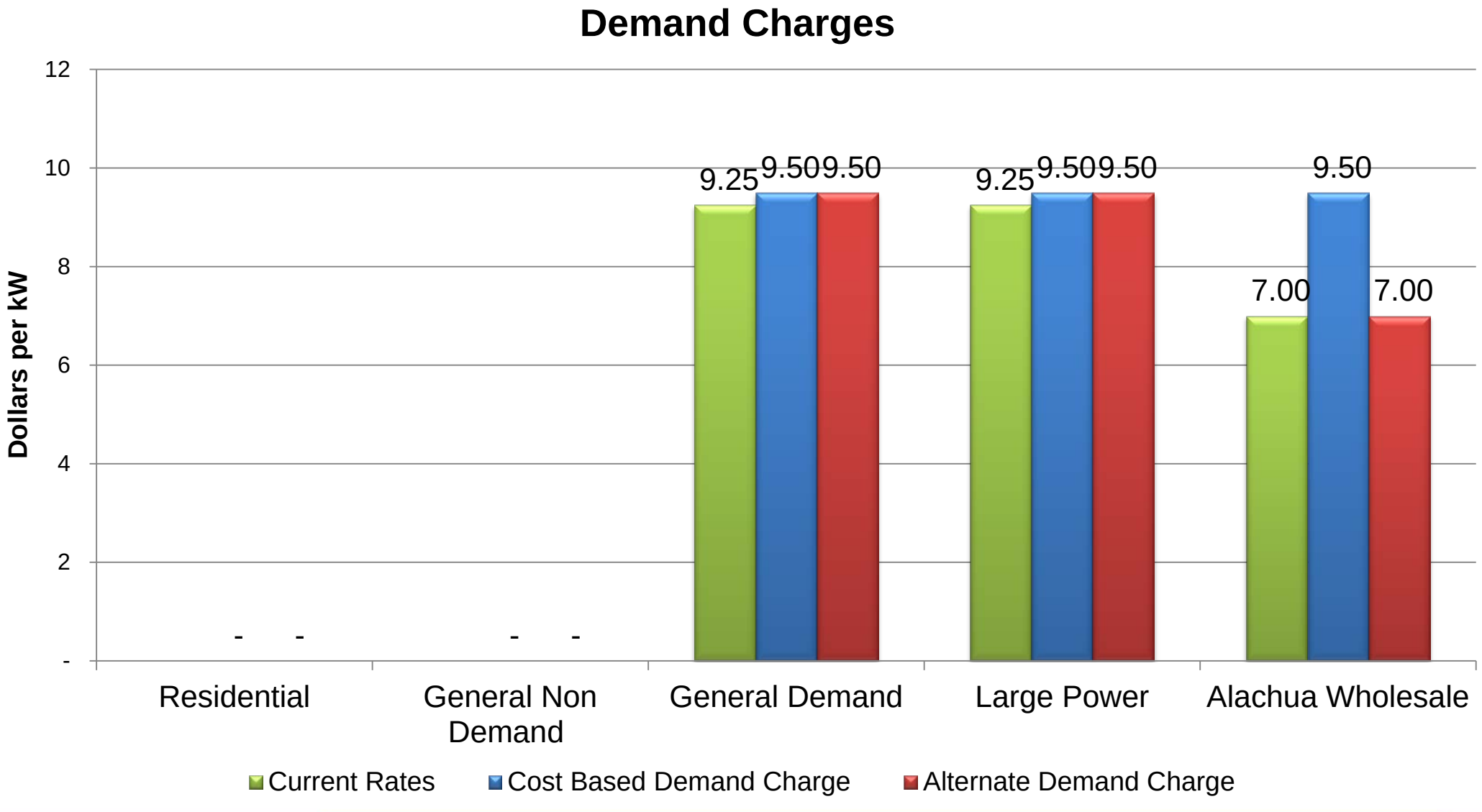

Electric Rate Design - Energy Charges

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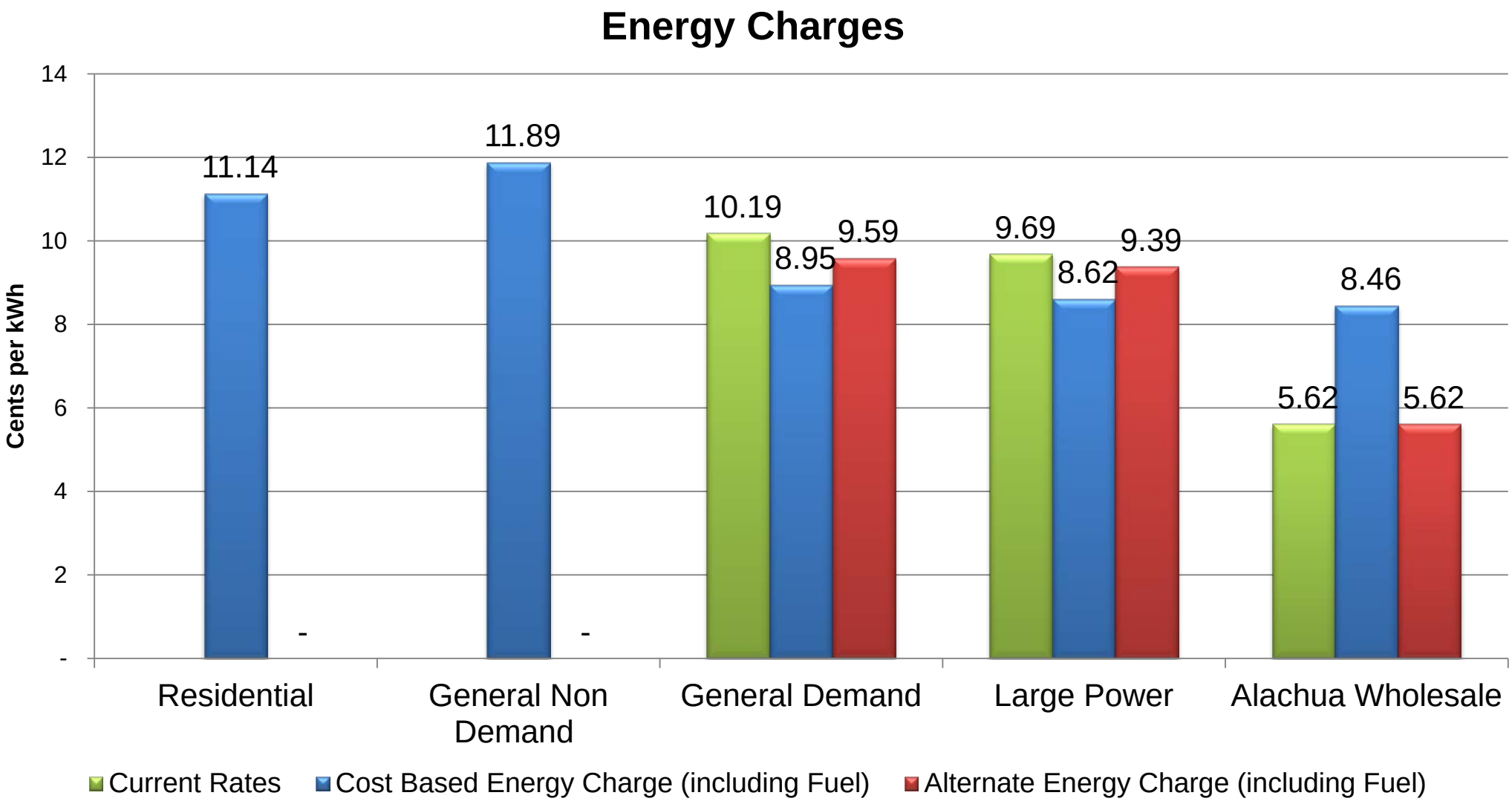

Electric Rate Design - Energy Charges

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Electric Energy Charges

	Current Rates	Cost Based Rates	Alternate Rates
Residential			
First 250 kWh	0.0340	-	0.0455
Next 500 kWh	0.0680	-	0.0615
Over 750 kWh	0.1020	-	0.0965
General Non Demand			
First 1,500 kWh	0.0800	-	0.0625
Over 1,500 kWh	0.1080	-	0.0865
General Demand	0.0510	0.0321	0.0450
Large Power	0.0460	0.0288	0.0430
Alachua Wholesale	0.00532	0.0272	0.00532

Electric Rate Design - Tiered Rates

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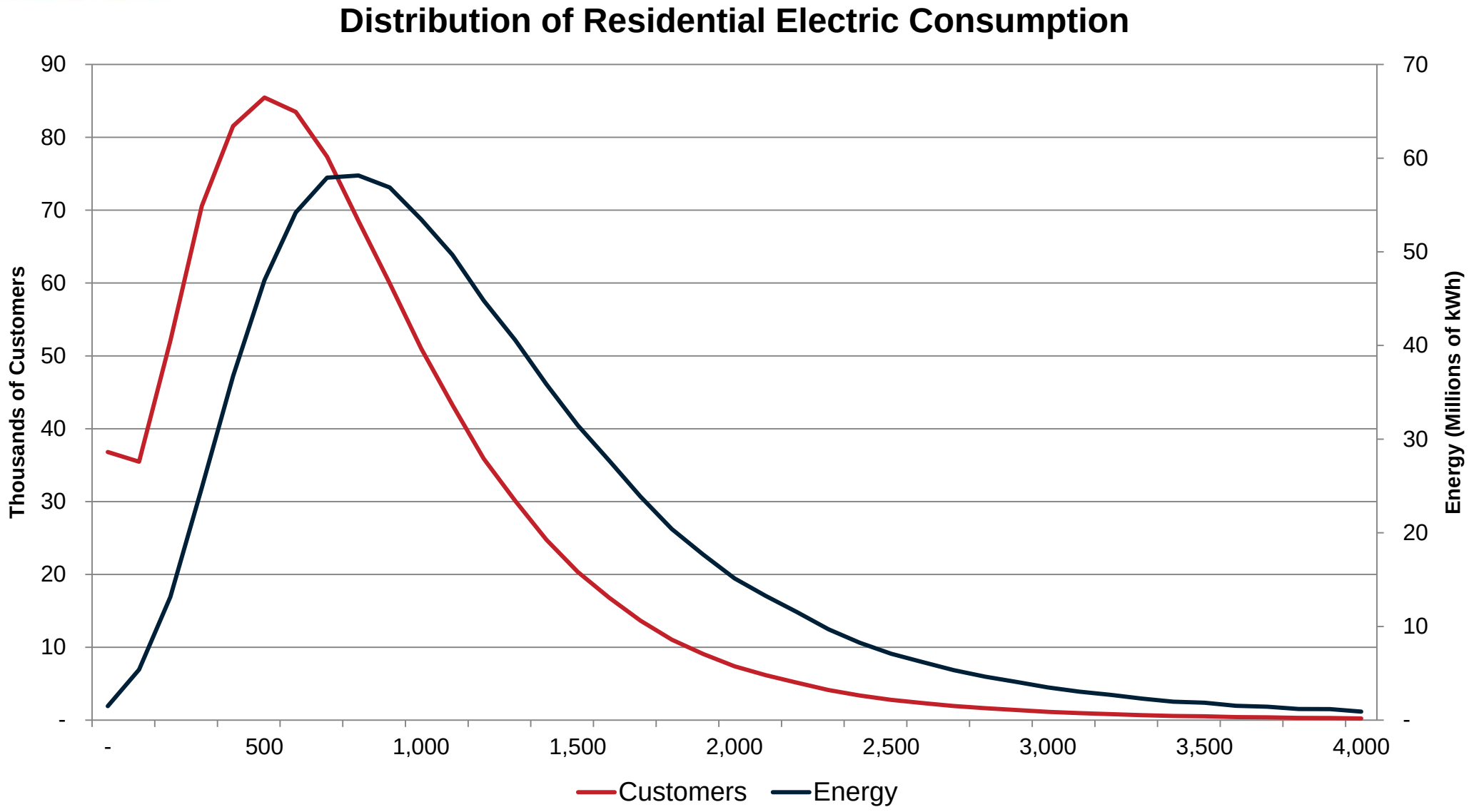

Electric Rate Design - Tiered Rates

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Threshold	Percent of Customers Exceed Threshold	Percent of Consumption by These Customers
250	89.9%	98.6%
500	70.9%	90.1%
750	49.0%	74.3%
1,000	31.6%	56.7%
1,500	12.1%	29.3%

Electric Rate Design - Tiered Rates

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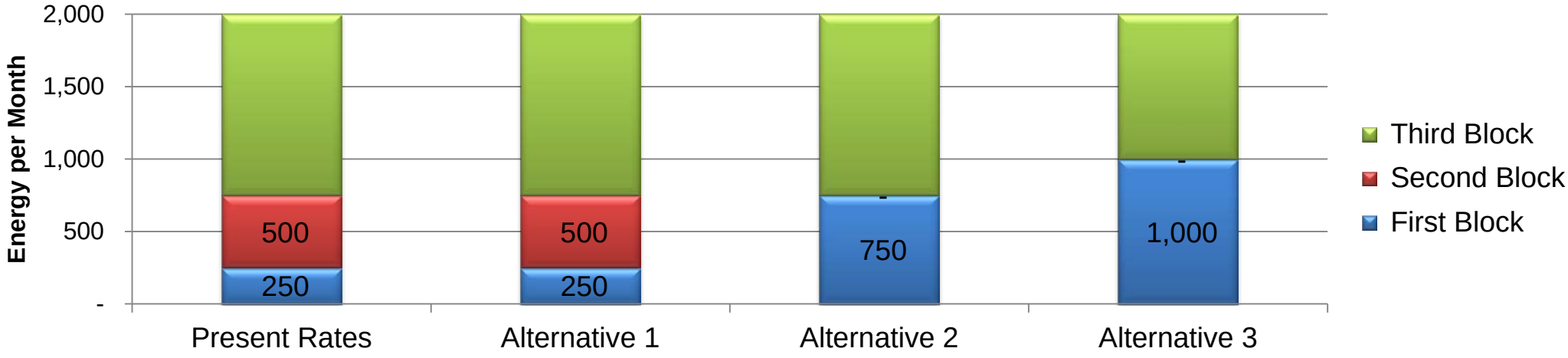
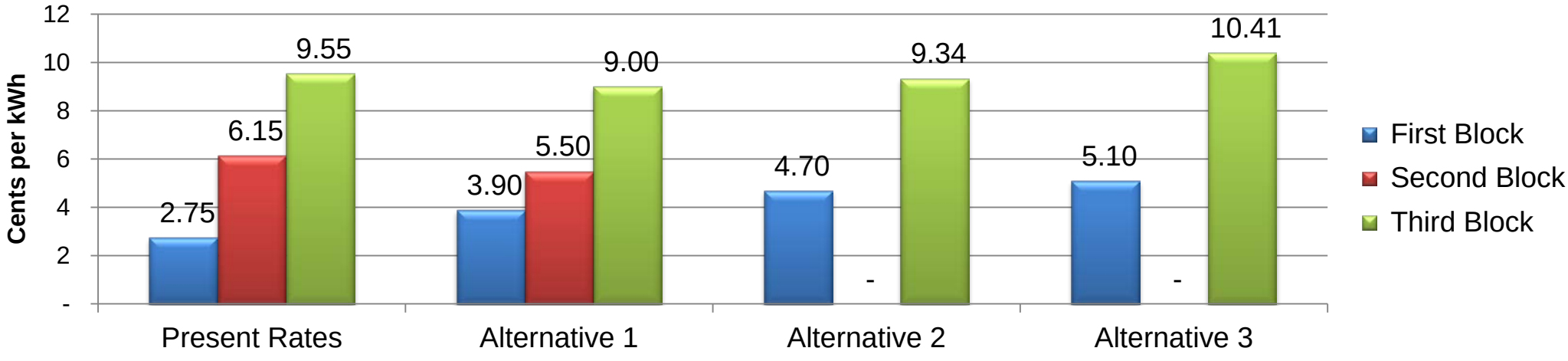
Block Size Alternatives



Block Rate Alternatives



Electric Rate Design - Tiered Rates

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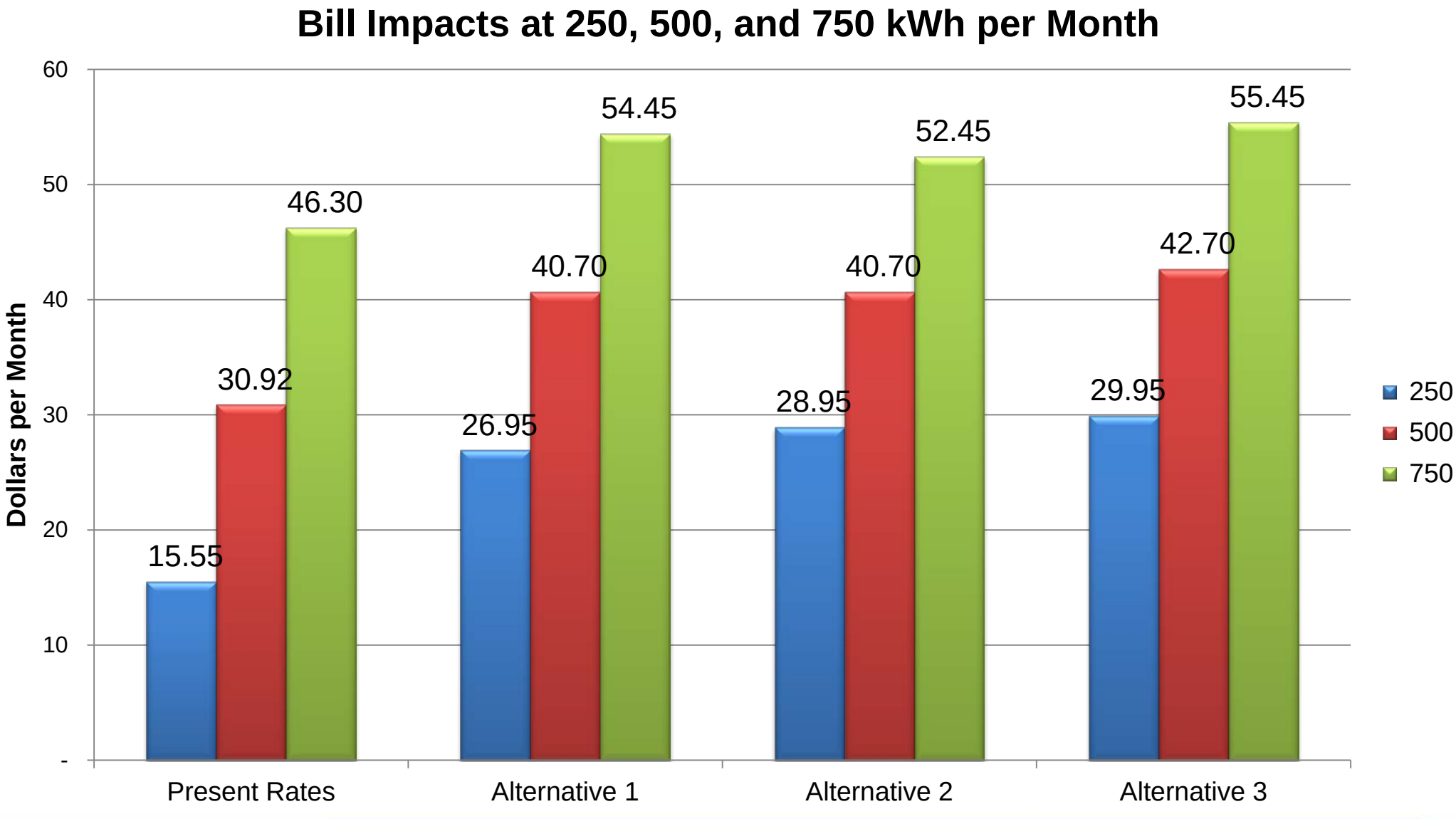

Electric Rate Design - Tiered Rates

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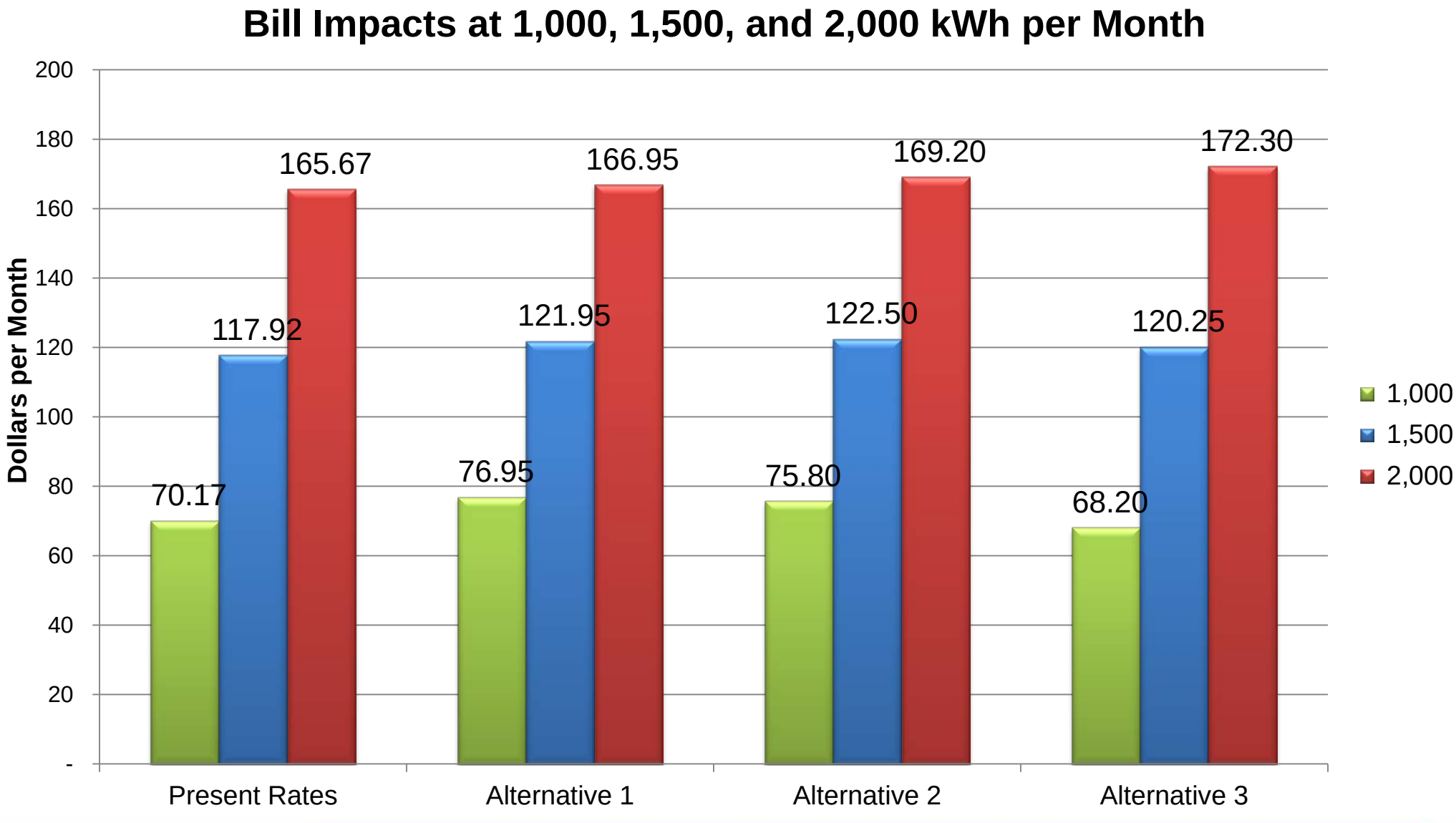
Candor. Insight. Results.



Electric Rate Design - Tiered Rates

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Take Away Points for Tiered Rates

Most customers exceed the current 250 kWh first tier.

The impact of a tiered rate structure depends on

- Size of tiers
- Rate for each tier
- Customer consumption patterns

Water Rate Design

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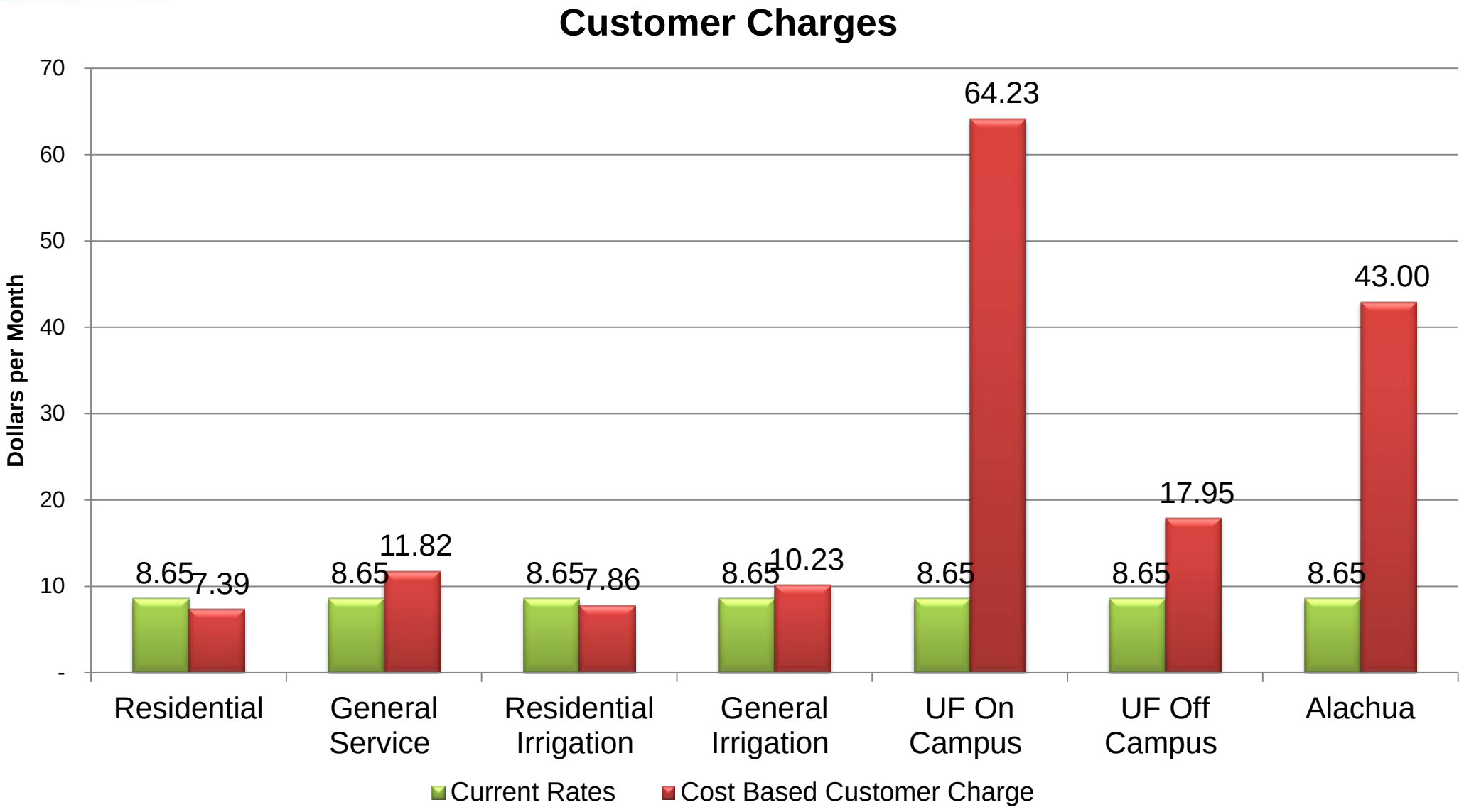

Water Rate Design - Customer Charges

BAKER TILLY

Candor. Insight. Results.

Water Customer Charges by Class

	Current Rates	Cost Based Rates
Single Family Residential	8.65	7.39
Multi Unit Residential	8.65	7.39
General Service	8.65	11.82
Residential Irrigation	8.65	7.86
General Irrigation	8.65	10.23
UF On Campus	8.65	64.23
UF Off Campus	8.65	17.95
Alachua	8.65	43.00

Water Rate Design - Customer Charges

BAKER TILLY

Candor. Insight. Results.

Water Customer Charges by Meter Size

	Billing & Collection	Equivalent Meter	Cost Based Rates
5/8 inch	2.77	4.12	6.89
3/4 inch	2.77	4.53	7.31
1 inch	2.77	5.77	8.54
1.5 inch	2.77	7.42	10.19
2 inch	2.77	11.96	14.73
3 inch	2.77	45.35	48.12
4 inch	2.77	57.72	60.49
6 inch	2.77	86.57	89.34
8 inch	2.77	119.55	122.33
10 inch	2.77	164.90	167.67

Water Rate Design - Volume Charges

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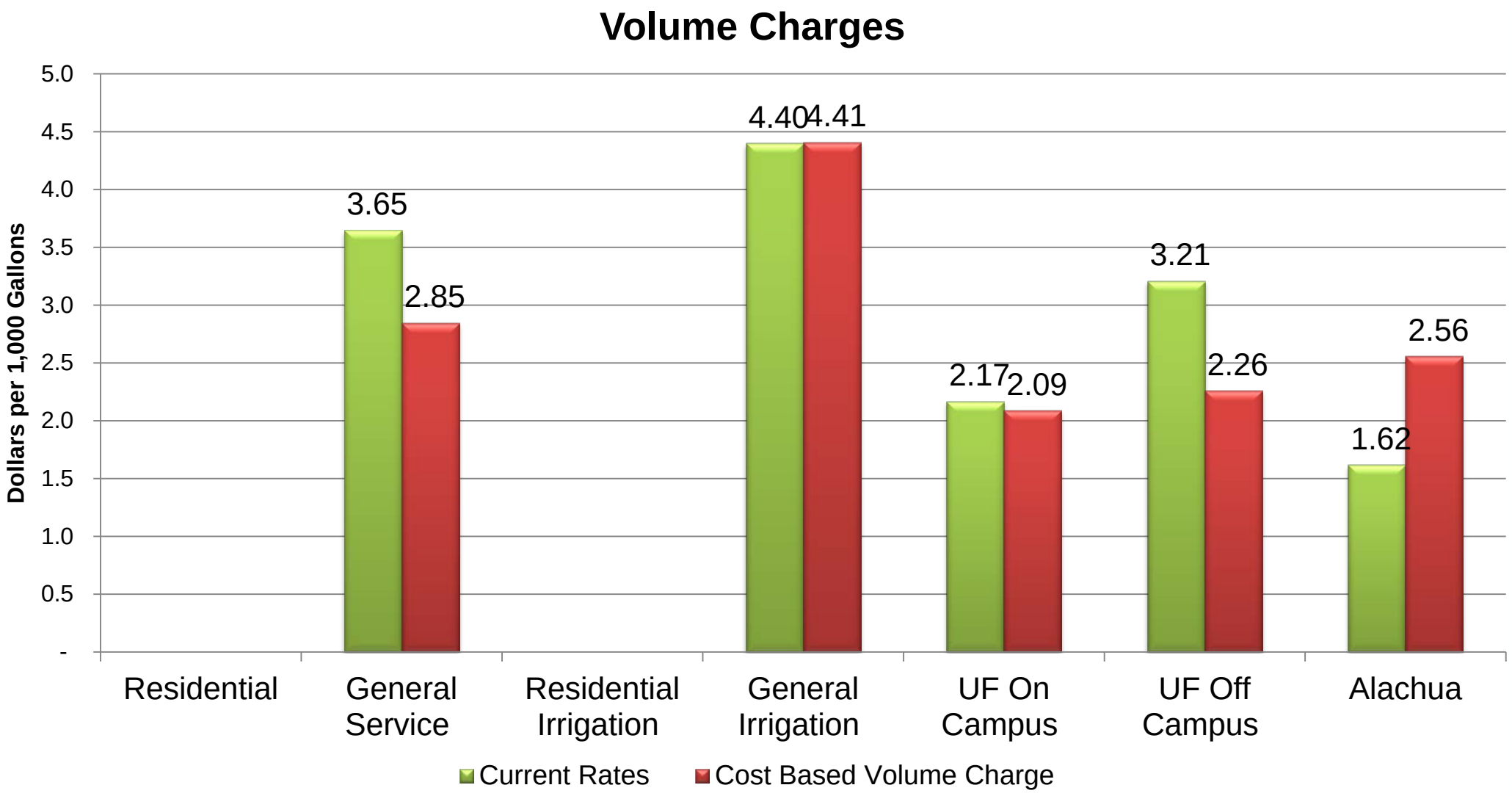

Water Rate Design - Volume Charges

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Tiered Water Volume Charges

	Current Rates	Cost of Service Rates
Standalone Residential		
First 7,000 gallons	2.05	2.53
Next 13,000 gallons	3.65	3.65
Over 20,000 gallons	6.00	6.00
Multi Unit Residential		
First 7,000 gallons	2.05	2.53
Next 13,000 gallons	3.65	3.65
Over 20,000 gallons	6.00	6.00
Residential Irrigation		
First 15,000 gallons	3.65	3.65
Over 15,000 gallons	6.00	5.65

Water Rate Design - Volume Charges

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Non-Tiered Water Volume Charges

	Current Rates	Cost Based Rates
General Service	3.65	2.85
General Irrigation	4.40	4.41
UF On Campus	2.17	2.09
UF Off Campus	3.21	2.26
Alachua Wholesale	1.62	2.56

Water Rate Design - Tiered Rates

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Water Rate Design - Tiered Rates

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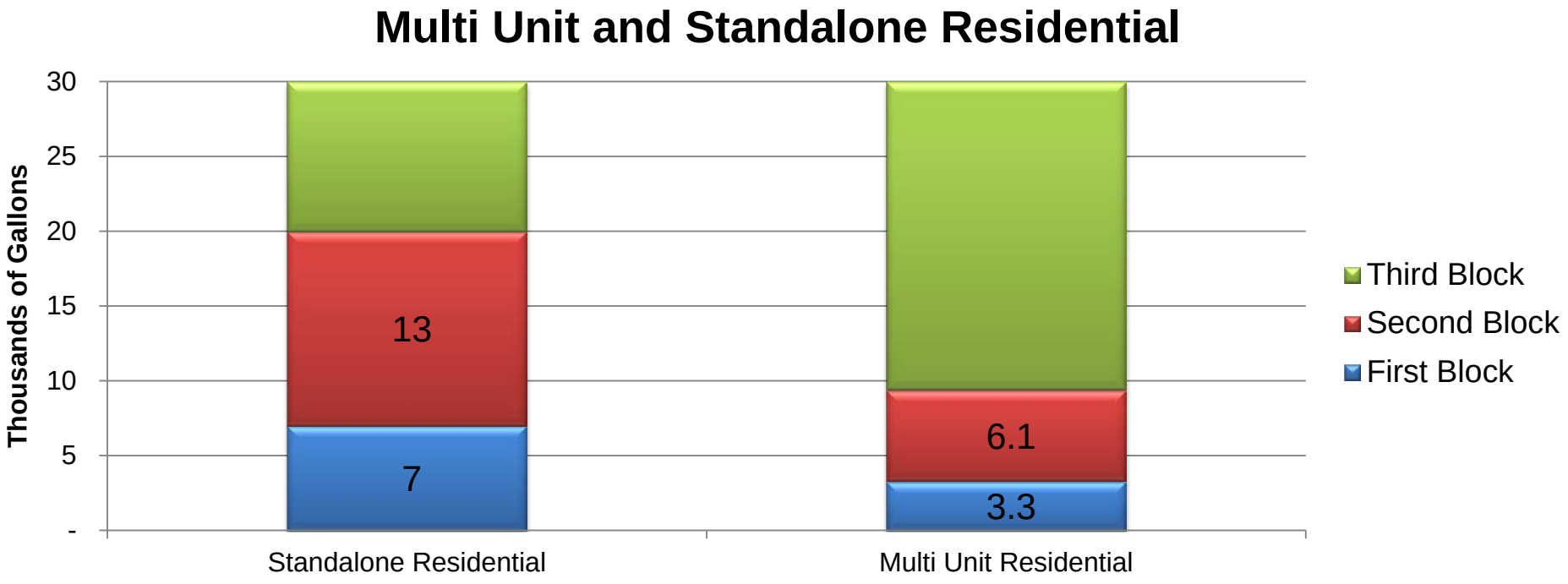
Multi unit residential customers use less water on average than standalone homes.

Smaller multi unit rate blocks are reasonable to reflect lower average use.



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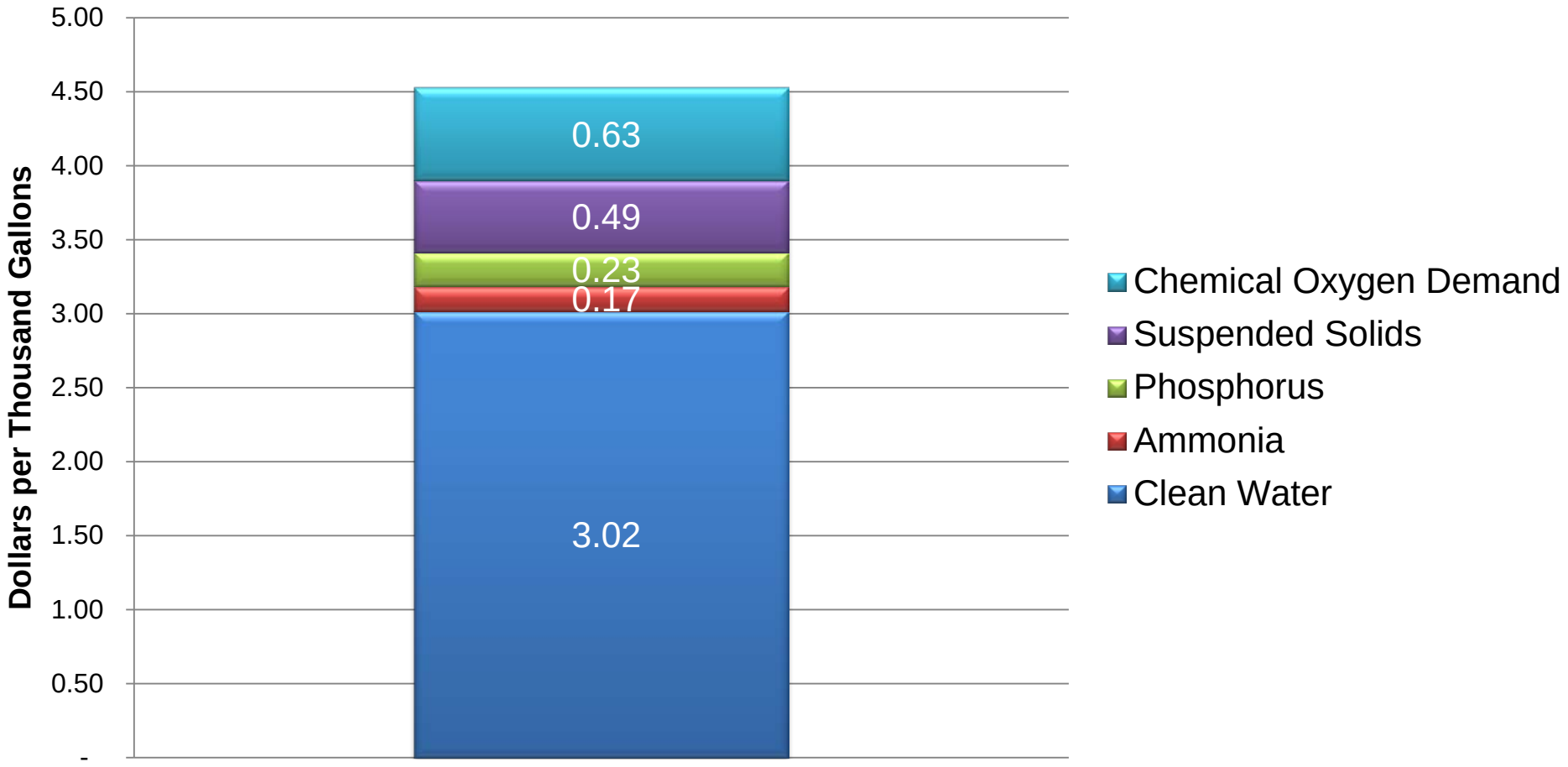
How is the domestic wastewater volume rate developed?



Wastewater Rate Design - Volume Charges

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Wastewater Volume Charges

	Current Rates	Cost Based Rates
Residential	5.50	4.53
Nonresidential	5.50	4.53
Reclaimed	0.60	1.38
High Strength	5.50	4.53

Wastewater Rate Design - Customer Charges

BAKER TILLY

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Wastewater Customer Charges

	Current Rates	Cost Based Rates
Residential	7.40	13.68
Nonresidential	7.40	13.68
Reclaimed	7.40	13.68
High Strength	-	13.68

Wastewater Rate Design - High Strength Charges

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	Current Rates	Cost Based Rate per Pound
Chemical Oxygen Demand	0.80	0.20
Suspended Solids	-	0.23
Phosphorus	-	1.85
Ammonia	-	0.50

Wastewater Rate Design - Winter Max

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GRU does not charge wastewater rates for outdoor water use.

GRU uses the maximum monthly water consumption in January and February to estimate indoor water use for each customer.

Water consumption in excess of the January/February maximum is exempt from wastewater charges.

Wastewater Rate Design - Winter Max

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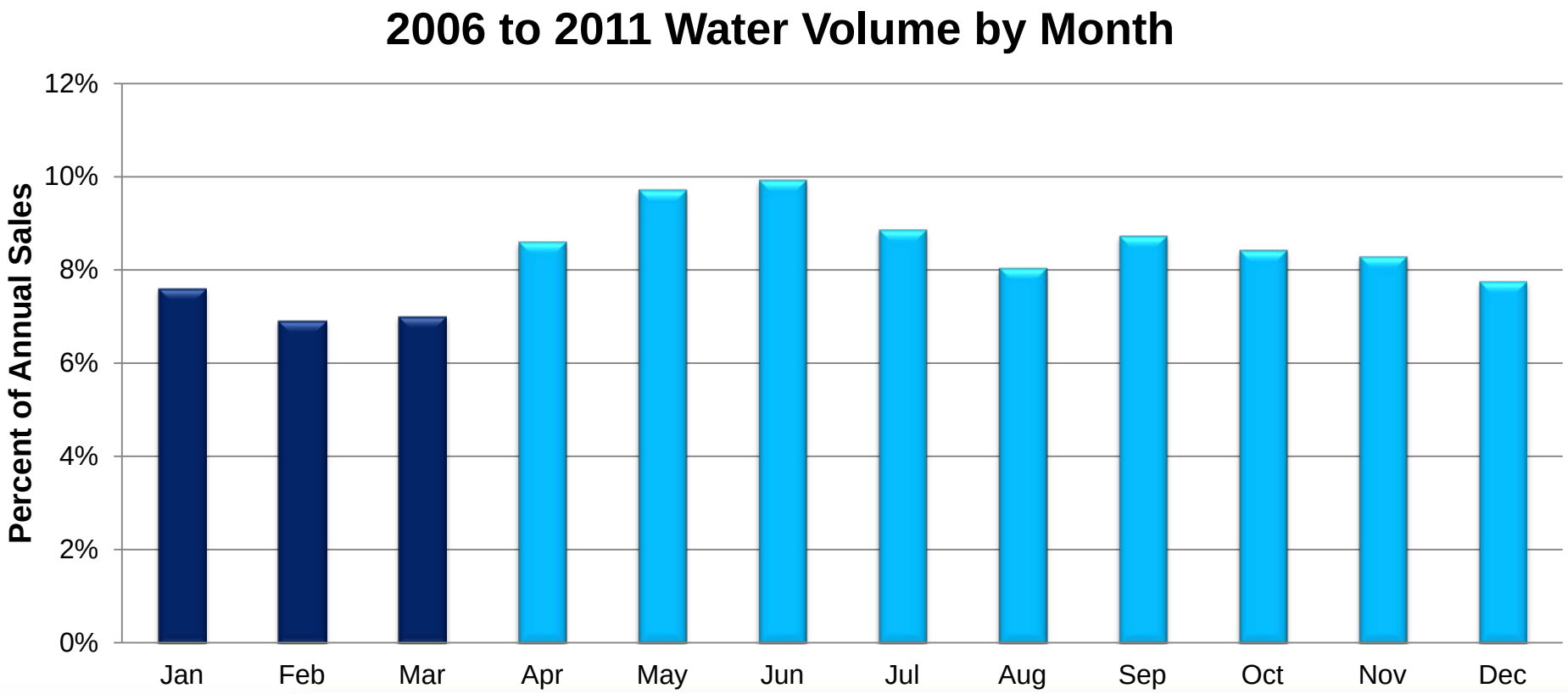
Water sales are lowest in December, January, February, and March.



Wastewater Rate Design - Winter Max

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Alternative	Advantage	Disadvantage
January February maximum	Reasonable, consistent with current practice	Makes wastewater billing dependent on fluctuations during a small part of the year
January February average	Reasonable, may even out short term fluctuations by averaging over two months	Lower estimate of indoor water use reduces the units for which GRU bills
January through March maximum	Higher estimate of indoor water use increases the units for which GRU bills	Meter readings late in March may include outdoor water use
January through March average	Produces stable estimate less prone to short term fluctuations	May include late march outdoor water use, but this is averaged with lower use in January and February
No adjustment for outdoor use	Simplifies wastewater billing	May be unfair to some customers with heavy outdoor water use

Natural Gas Rate Design

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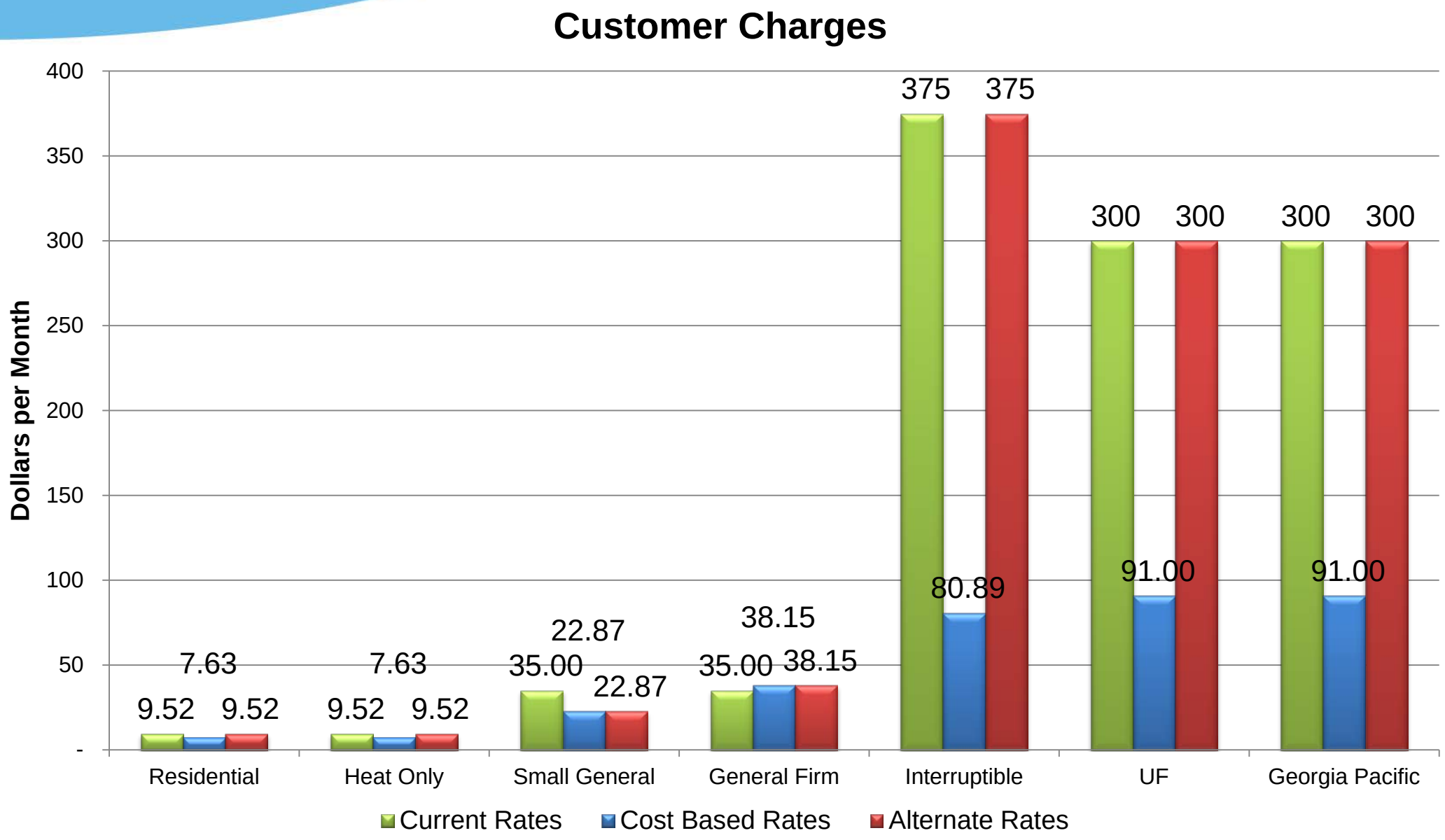

Natural Gas Rate Design - Customer Charges

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Natural Gas Customer Charges

	Current Rates	Cost Based Rates	Alternate Rates
Residential	9.52	7.63	9.52
Heat Only	9.52	7.63	9.52
Small General	35.00	22.87	22.87
General Firm	35.00	38.15	38.15
Interruptible	375.00	80.89	375.00
UF	300.00	91.00	300.00
Georgia Pacific	300.00	91.00	300.00

Natural Gas Rate Design

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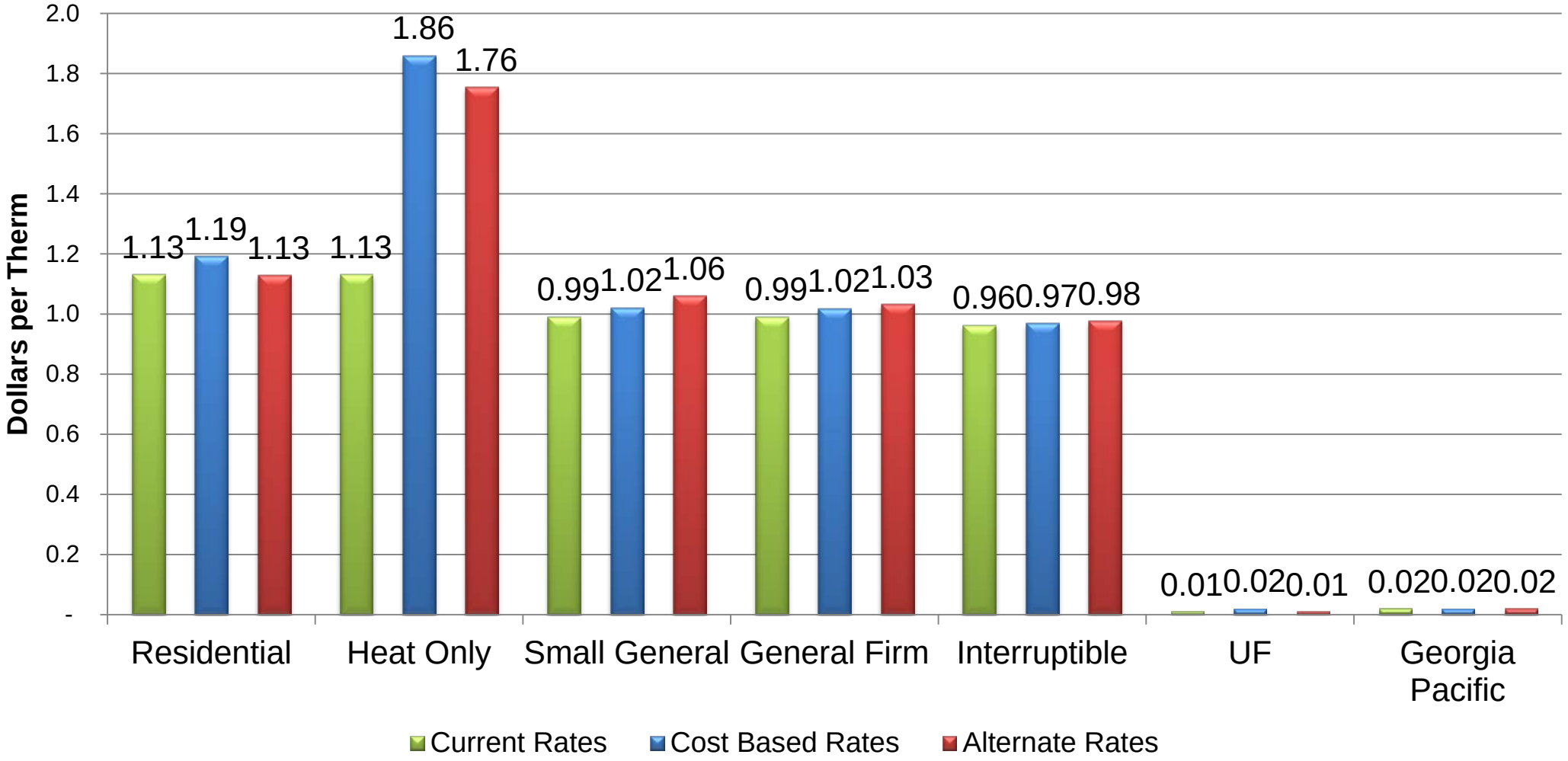
Energy Charges Including Purchased Gas and Manufactured Gas Plant Adjustment



Natural Gas Rate Design - Energy Charges

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Candor. Insight. Results.

Natural Gas Energy Charges

	Current Rates	Cost Based Rates	Alternate Rates
Residential	1.13205	1.19305	1.12971
Heat Only	1.13205	1.86099	1.75671
Small General	0.99205	1.02325	1.06151
General Firm	0.99205	1.02024	1.03451
Interruptible	0.96405	0.97042	0.97759
UF	0.01000	0.02134	0.01000
Georgia Pacific	0.02000	0.02147	0.02000

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Take Away Points for Rate Design

Rates must account for factors other than cost

Adjust rates over time and through a number of rate studies

Higher electric customer charges reduce revenue variability

Alternatives exist for water customer charges

Questions?

BAKER TILLY

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>Russ Hissom – 608 240 2361 russ.hissom@bakertilly.com

Thank you for choosing Baker Tilly to work with you on this project!