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Financial Risk Management Program

Gainesville Regional Utilities
May 2010



Introduction

Risk in general is the quantifiable likelihood of loss or less-than-expected returns. Risk management is the process of analyzing exposure to risk and determining how to best handle such exposure. This Financial Risk Management Program is specific for the financial requirements and constraints of Gainesville Regional Utilities (GRU). The purpose of this program is to:

- Identify GRU's financial risks;
- Establish a framework for setting reserve fund levels; and
- Identify other strategies to manage financial risks.

Any Financial Risk Management strategy developed must be consistent with the financial objectives of GRU. These objectives are to:

- Provide the City of Gainesville (the City) with a General Fund Transfer (GFT) that is in the top quartile, when compared to other publicly owned utilities, in the state of Florida.
- Maintain unsecured bond ratings of AA/Aa2 from Standard and Poor's and Moody's Investors Service, respectively.

Any Risk Management strategy will be consistent with the requirements set forth in the Amended and Restated Utilities System Bond Resolution ("Resolution").

Scope

All of GRU's financial activities including debt management, swap management (a swap is an exchange of securities to change a financial component), investment guidelines, energy and fuel management, and long range planning have some level of financial risk and are addressed in this report. There are also Regulatory and Environmental risk issues that will be identified, along with the risk mitigation plan associated with those issues. Risk mitigation strategies will provide the framework for daily operations.

Identification of Financial Risks

GRU is exposed to five broad categories of risk. These categories are identified in Table 1 below. Examples of sources of risk are identified, as well as, a list of the applicable risk mitigation strategies currently being applied to manage these risks.

Table 1
Gainesville Regional Utilities
Risk and Mitigation Strategies

MAJOR CATEGORY	THREAT	RISK MITIGATION
Operating Cash Flow Risk	<u>Revenue Risk</u> -Forecast Error -Weather Sensitive Sales -Loss of Wholesale Revenue -Loss of Retail Revenue -Electric Transmission System Market Restructuring	-Financial Reserves -Load Retention – (Retail and Wholesale) -Rate Reduction for Term Retail Contracts (Business Partners)
	<u>Generation Costs</u> -Fuel Prices -Fuel Supply	-Fuel Adjustment Policies -Fuel Levelization Fund -Fuel Diversity/Switching -Energy Marketing and Trading -Commodity Hedging Program
	<u>Inventory Issues</u> -Fuel Reserves -General Materials (ready assets)	-Fuel Inventory Management -Spare Parts Inventory Management
	<u>Accidents and Private Property Damage</u> -Vehicle Accidents -3 rd Party Liability Claims	-Insurance -Financial Reserves -Sovereign Immunity -Safety and Training Programs
Catastrophic Events	<u>Plant and Equipment Failures</u> -Generation Plants -Water Treatment Plant -Wastewater Treatment Plants -Telecom – Central Plant -Telecom – Fiber System -Information Systems -Transmission Systems -Distribution Systems -Collection Systems -Severe Weather	-Generation Mutual Aid Agreements -Property Insurance -Financial Reserves -Reserve Capacity -Redundant Designs -Emergency Materials and Supplies -Business Recovery Plans -Trans., Dist. & Collection System Mutual Aid Agreements
Construction Risk	-Delays and Overruns	-Contingency Budgets -Liquidated Damages
Regulatory and Environmental Risk	-Climate Change (CAIR) -Environmental Contamination -Environmental Management System	-Risk Assessment of Climate Change -Green Energy Programs -Regulatory & Legislative Awareness -Environmental Management System -Natural Resource Studies
Contingent Financial Liabilities	<u>Swap Termination Payment</u>	-Financial Reserves
	Variable Interest Rate Risk	-Financial Reserves -Variable rate assets

Summary of Reserve Funds

A reserve fund level that is formula-driven by the primary indicators of risk is necessary as the levels of risk can vary markedly through time. There are two funds established within the Bond Resolution that can be used to provide financial reserves:

1. Rate Stabilization Fund (RSF) – Provides financial reserves that can be used in the following ways:

- Transferred into any other Fund or Account established under the Resolution (to the operating funds to avoid rate shock)
 - Used to purchase or redeem Bonds and/or Subordinated Indebtedness
 - Used to provide for the payment of Bonds and/or Subordinated Indebtedness;
2. Utility Plant Improvement Fund (UPIF) – Provides financial reserves that can be used in the following ways:
- Payments into the Debt Service Account
 - Payments for the cost of extensions, enlargements or additions to, or the replacement of capital assets of the System and emergency repairs
 - Payments into the Subordinated Indebtedness Fund
 - Purchase or redemption of Bonds and/or Subordinated Indebtedness
 - Provide for payment of Operation and Maintenance Expenses

The following formula for minimum reserves, as applied to each system separately, then summed, will conservatively meet GRU's changing need for financial reserves through time. This assumes that existing policies for insuring centralized plant assets, managing fuel costs, managing swap and debt instruments, and budgeting for capital and debt service requirements are maintained. Reserves will be maintained at no less than:

1. The difference between expected and the lower 97.5% confidence limit for non-fuel revenue; plus
2. A percentage of the value of self insured distributed assets plus the deductible applicable to insured assets; plus
3. Sixty days of average annual non-fuel operating expenses; plus
4. Five percent (5.0%) of expected annual capital expenses; plus
5. One-Hundred percent (100%) of the Swap payments due if the worst 1 month period over the last 10 years for each swap category recurs for a full year; plus
6. One-Hundred percent (100%) of the un-hedged Variable Interest Rate risk.

Review of this formula with GRU's financial advisor indicates that these criteria are appropriate. In addition to cash reserves, GRU's tax-exempt and taxable commercial paper lines (TECP and TCP) are available to provide additional liquidity, if needed.

Operating Cash Flow Risk

Revenue Risk

Weather Sensitive Sales and Forecast Error

GRU's budget and rate making is based on many variables, including projections of sales revenue. Revenues vary from projections due to a variety of factors, including weather, higher or lower than expected consumption, or higher or lower than expected new customers. This level of risk can be assessed statistically using historical variations in sales and the application of current rates.

GRU has also created a confidence interval around the budgeted numbers. A statistical calculation, Cash-Flow-at-Risk (CFaR), was performed to quantify the level of sales revenue reserves needed to insure that actual revenues are no less than the reserved amount with a 97.5% degree of certainty. Through statistical analysis, GRU can have

confidence that there is only a 2.5% chance that the sales shortfalls will be greater than the reserved amount.

Loss of Wholesale Revenue

GRU has two electric wholesale customers – the City of Alachua and Seminole Electric. These two wholesale contracts accounted for approximately 1.9% and 1.6% of total projected sales revenue in FY 2010 (including fuel pass-through charges), respectively. Alachua's contract extends through December 2010 and Seminole's through March 2012. There is no reserve provided for this portion of revenue. In the unlikely event that contracts were terminated early, this power could be sold competitively in the open market. However, the margin budgeted as a result of these sales might not be achieved. The non-fuel O&M portion of these costs is covered under the Catastrophic Event risk category.

Loss of Retail Revenue

Revenue risk is present due to future regulatory change that could require retail electric choice (retail deregulation). This could generate the loss of retail customer sales, resulting in stranded assets and costs. Florida does not now allow, nor is any legislation pending to allow, retail electric choice, and the risk of lost revenue due to retail deregulation is currently deemed to be very low.

GRU's strategy for the possibility of retail choice is to maximize the economic hurdle rate a competitor would need to meet to entice a potential customer with lower energy costs. A hurdle rate is the required rate of return above which an investment makes sense and below which it does not. It is currently assumed that electrical service transmission and delivery will remain a regulated monopoly, and that transmission ownership related expenses will be recovered. This assumption has been shown to be true for all the retail electric deregulation and independent transmission system operator models instituted in the US to date.

The economic hurdle rate a competitor must meet has been maximized through four key strategies. First, GRU has a core value of keeping its electric production costs as low as possible. The fuel mix is diversified and the generation fleet is currently at or below market prices. GRU's membership with The Energy Authority (TEA) assures continued access to the energy markets in the southeastern US to take advantage of opportunities to purchase power at lower than production costs.

Second, GRU has unbundled its retail rates into generation, transmission, distribution, and customer service elements. Transfers to the City's General Fund are fixed costs defined by formulas, and none of these costs have been assigned to the generation billing elements.

Third, in the past GRU had the ability to reduced commercial retail rates to levels consistent with completed cost of service studies. In order to retain value from these reductions, commercial customers have been given access to tariff reductions only after entering into ten-year term agreements that require the refund to GRU of three years of the tariff reduction before the customer is allowed to terminate the agreement and change energy suppliers. Due the currently low risk of retail deregulation, these tariff reductions have been discontinued, and the existing agreements will be allowed to run to expiration. The last agreements will expire in early 2013. The natural expiration of these agreements will have a beneficial effect on revenue requirements.

Finally, a load retention tariff is in place under which the City Commission may choose not to apply a portion of the general fund transfer to a specific customer. This provides the City the opportunity to retain, attract or expand load when justified to protect fixed costs or promote economic development. These measures combined with the currently lower level of interest in implementing retail choice in Florida appear to be adequate strategies to mitigate this risk at this time.

Electric Transmission System Market Restructuring

The formation of a Florida ISO/RTO could affect GRU in one of two ways: First, by affecting cost recovery for transmission facilities, and second, by changing the effective pricing of wholesale power transactions. All of the proposals for the creation of an ISO/RTO for Florida to date have included provisions for the management and cost recovery of facilities owned by municipal utilities, as well as providing the option for municipals to opt in or out under a reciprocity arrangement. GRU's unbundling of rates as described above has created a history of FPSC approved tariff structures intended in part to defend GRU's filings for transmission cost recovery from an ISO/RTO, thus effectively hedging against the first concern. Second, the net effect of an appropriately structured ISO/RTO, with improved wholesale market liquidity, may very well be to the benefit of GRU ratepayers. The net effect of participation will be weighed very carefully prior to making any decision to participate. Finally, studies performed to date have not shown a Florida ISO/RTO to be cost-effective. Because all ISO/RTO dockets between Florida's investor-owned electric utilities and the Federal Regulatory Commission as well as the Florida Public Service Commission have been closed, the risks attendant on the formation of an ISO/RTO are currently considered to be very low.

Generation Costs

Fuel Prices

Certain electrical generation costs at risk are addressed through GRU's Energy Risk Management Administrative Guideline. The Guideline provides criteria and guidance to staff for the appropriate use of financial and physical hedges to manage the volatility of fuel and electrical energy costs, to the benefit of GRU's customers. Examples of financial hedges include the purchase or sale of New York Mercantile Exchange (NYMEX) gas futures or electrical energy futures. Examples of physical hedges might include the purchase or sale of call options. Under the Guideline, electrical generation or natural gas "Cash-Flow-at-Risk" calculations ("CFaR_{97.5}" measured at a probability of 97.5%) must be reduced by any financial position that is taken.

Cash-Flow-at-Risk calculations for these purposes are performed for GRU by The Energy Authority (TEA) using industry specific modeling software. Future electrical production costs are modeled on an hourly basis using heat rates and fuel costs empirically based upon real time management of GRU's generation assets. Probability distributions for variations from forecasted hourly loads, fuel prices, forced outage rates and projected market prices for power are modeled using Monte Carlo simulation methods to create 700 different cases. The effects of financial and physical hedging strategies that GRU is considering are used to create a probability distribution of fuel and power costs. The statistical distribution of these outcomes is used to compute CFaR_{97.5} values.

GRU's objective for energy risk management is to protect our customers from excessive energy price increases while, at the same time and to the extent possible, minimizing

the cost of reliable energy supplies. GRU's hedging program to reduce natural gas price volatility has been successful.

Other means by which GRU hedges its customers' fuel costs include:

- TEA's Trading Operations
- Fuel Diversity/Switching
- Fuel Adjustment Policies
- Fuel Levelization Fund

TEA's Trading Operations

TEA's physical trading operations include buying and selling electricity and natural gas on a 24 hour per day, seven day a week basis. Given that TEA is managing more than 25,000 MW of generation capacity for its members, GRU is continuously aware of the economics of buying, self generating, or selling electric power. In a similar manner, TEA also purchases natural gas on a daily basis and maximizes the economic value of the natural gas pipeline entitlements that GRU holds.

Additionally, GRU manages fuel and purchased power credit risk through TEA. TEA monitors the credit of counterparties and manages credit security requirements on behalf of its members.

GRU Management is in regular contact to collaborate with TEA staff. Through active involvement in several TEA oversight committees, GRU management monitors and participates in decisions that effect the daily operations and strategic direction of TEA.

Fuel Diversity/Switching

Several of GRU's generating units can use multiple fuels, such as distillate oil, residual oil, and/or natural gas. GRU stores distillate and residual oil for emergency backup. Fuel switching can also be used to control fuel costs, especially during periods of extreme natural gas price spikes.

Fuel Adjustment and Levelization Policies

Although GRU works hard to minimize the cost and volatility of fuel prices, current federal and state policies and tariffs allow fuel costs to be passed through directly to customers. For the electric system this cost is passed through as a fuel adjustment. For the natural gas system fuel cost is passed through as the purchased gas adjustment. Although these adjustments can be made on a monthly basis, fuel price levelization funds are managed to help minimize the volatility of the monthly fuel adjustment passed along to the customer. Among other considerations, retail fuel adjustments are set to provide Levelization funds to mitigate higher purchased power costs during major planned unit outages. Because fuel price levelization policies are designed to net to zero on an annual basis, the use of operating funds for levelization is not identified as a specific financial reserve.

Although GRU actively manages fuel supply to minimize price risk, such risk is ultimately borne by GRU's customers and specific funds are not set aside for this purpose.

Inventory Issues

Fuel Reserves

Coal: GRU's coal procurement strategy covers the bulk of forecasted coal requirements with competitive, flexible firm contracts. The contracts are structured to allow additional volumes of contract coal to be purchased beyond the base volumes to account for potential variations in the forecasted coal burn. Depending on coal prices and volumes at any given time, coal inventory on hand can vary. A planned build up of inventory can hedge against unplanned events related to supply or transportation disruption.

Oil: GRU has the ability to purchase and inventory oil. Fuel oil is purchased in cargo lots and is transported by railcar or tanker truck. The utility purchases all oil cargo by competitive bidding procedures and seeks to control the cost of such purchases by purchasing forward cargo at fixed prices for the contract term, timing market entry points to take advantage of favorable pricing, and shifting inventory by trucking between sites as needed to avoid purchases in periods of high prices or tight supply by maximizing the use of available storage. This active management of oil inventory is a hedge, thus reserves do not need to be budgeted in this area.

General Materials

GRU currently utilizes four warehouses. There is sufficient space to store, and the utility does store, additional materials and supplies which might be very difficult to find on short notice or would be necessary following a natural disaster or severe weather conditions. For this reason GRU has storm supplies in inventory. Financial reserves do not need to be budgeted in this area.

Accidents and Private Property Damage

Under Florida law municipal corporations are subject to a limited waiver of sovereign immunity (\$100,000 per claim/\$200,000 per occurrence) for tort claims, unless the Legislature enacts a claims bill for a greater sum.

Catastrophic Events

Plant and Equipment Failures

Utility facilities are planned, designed, constructed and maintained to mitigate against catastrophic failure. For example, there are 12 substantial generating units of a variety of types and sizes that provide for excess generation (reserves) to accommodate unit outages. GRU participates in the Florida Reliability Coordinating Council to gain access to the reserve capacity of other utilities and make its own reserve capacity available in return, for relatively short term generation emergencies. GRU is also party to a special long term generation mutual aid agreement among consumer-owned electric utilities in Georgia and Florida. This agreement provides access to base load power to back-up designated base load units in the event of an extended outage greater than 60 days and up to 12 months in length. Despite these precautions, catastrophic failures are possible and can result in repairs and lost revenues to cover fixed operating costs.

To address property damage GRU carries property insurance. GRU's insurance strategy includes coverage for large centralized facilities, such as power and water

plants, and self insuring for distributed facilities such as electrical distribution. This is the industry norm. The single largest cost of catastrophic events on GRU facilities resulted from hurricanes Frances and Jeanne in the fall of 2004. The total cost of these events was \$6.8 million, or roughly 1.3% of the asset value of uninsured facilities at the time. The reserve for property damage provides for a percentage of the asset value of uninsured facilities as an additional safety factor along with funding of the deductible. GRU's 1.4079% ownership share of the Crystal River 3 nuclear power generating station is insured and covered with reserve funds through its operating agreements with Progress Energy Florida and the Florida Municipal Power Agency acting as GRU's agent

If a utility facility is damaged so badly that it is unable to provide service it may still have substantial fixed costs of operation, although variable operating costs such as fuels and chemicals will be diminished.

Another important contingency is the loss of critical business systems which could result in the inability to collect revenues. GRU has never had disruption of service that interrupted operations or revenue collection for more than a week. GRU plans and installs telecommunication, data storage, and processing systems with prudent levels of redundancy and back-up. However, in planning for a catastrophic event, it is prudent to cover operating expenses for sixty days. A two month time frame is within industry norms according to published data and GRU's financial advisor.

Construction Risk

Construction Risk includes costs incurred due to cost over-runs, project delays, and project changes. The magnitude of the risk is roughly proportional to the scale of the investment involved. GRU uses many techniques to manage these risks, depending upon the project, including liquidated damages and performance agreements. A level of conservatism is built into every project during the estimating stage as a part of the budgeting process. However, construction requirements, construction delays and increased material costs can affect the actual cost of construction. In order to mitigate this risk GRU plans for financial reserves equal to 5% of annual capital budgets.

Regulatory and Environmental Risks

GRU has three basic strategies related to regulatory risks. First, it stays actively involved with industry associations that monitor and participate in regulatory and legislative proceedings of all types that could impact utility services. Second, GRU studies and anticipates the effects of potential new regulations on existing and planned new facilities. Third, GRU is proactively involved in environmental monitoring and in programs likely to immerse staff in the science and public perception of emerging issues. Examples of this include involvement in renewable energy programs, natural resource studies, and assessment of environmental hazards resulting from both utility operations and the activities of other industries. GRU currently budgets funds for specific projects related to the environment. While additional reserves are not provided at this time, staff is actively monitoring potential Regulatory changes which might suggest that additional reserves are necessary.

Regulatory and Environmental Issues and their respective risk mitigation plans are as follows:

SYSTEM	ISSUE	RISK MITIGATION PLAN
Electric	CAMR (Clean Air Mercury Rule)	Co-benefits from new Deerhaven 2 AQS will meet CAMR <ul style="list-style-type: none"> - Scrubber - Selective Catalytic Reduction - Baghouse
	Carbon Regulation (EPA endangerment finding, legislation)	Diversify fuel supply: 21% renewable by 2014: <ul style="list-style-type: none"> - Solar Feed In Tariff - Biomass Power Plant Projects budgeted
	Renewable Portfolio Standards (State or Federal)	Diversify fuel supply: 21% renewable by 2014: <ul style="list-style-type: none"> - Solar Feed In Tariff - Biomass Power Plant Projects budgeted
Water	Water Supply Plan (Potential cap on consumptive use permit)	Replace irrigation uses with reclaimed water <ul style="list-style-type: none"> - Water conservation program - Inverted block rate design - Water use audits, rebates, information - GRU/UF/SJRWMD research program - Leak and theft detection Projects budgeted Alternative water supplies > 20 years into future if ever
	Koppers/Kabot Carbon (Well field down gradient from superfund site)	Sentinel monitoring well network in place Hydraulic containment initiated Panel of experts to advise on: <ul style="list-style-type: none"> - Investigations and studies - Proposed remediation plan (May 2010) - Record of decision (Jun/July 2010) Remediation funded through EPA superfund program
Wastewater	EPA Numeric Nutrient Criteria (WWTP discharge to Sweetwater Branch)	Plan A: apply for site specific alternative criteria Plan B: bypass Sweetwater with pipeline to treatment wetland
	Biosolids Disposal Site (Owner of leased site wishes to sell)	Purchase land (least cost alternative) <ul style="list-style-type: none"> - Plan A: applied for special use exemption - Plan B: seek vested rights determination Pursue alternative disposal methodology <ul style="list-style-type: none"> - Contract treatment and disposal out of Alachua County - Update alternatives analysis - Land acquisition budgeted
	FDEP Total Maximum Daily Load (TMDL) WWTP discharge to Alachua Lake	Paynes Prairie treatment wetland <ul style="list-style-type: none"> - Multi agency project - Considered a restoration project - Land acquisition complete Project budgeted

	Reclaimed water distribution (Consumptive use permit requirements)	Retail program - Implemented user charges - Mandatory service area ordinance under development Wet weather disposal options under development System expansion budgeted
Gas	Manufactured Gas Plant Site Remediation (Under consent order with FDEP)	Historical train station moved Remediation under way Cost sharing for Phase 1 Finished site will be a storm water park and technology museum Project and cost recovery budgeted

Contingent Financial Liabilities

Swap Basis Risk

Basis risk is present when yields on assets and costs on liabilities are based on different bases. In some instances, these different bases will move in the same direction, but not in parallel, or will move in different directions. This can cause changes in revenues or expenses, above or below those expected. There is usually slight basis risk with any offsetting positions.

In the event that one of these events was to occur, GRU could be paying more than expected. Because of this risk, reserves are allocated for this payment.

Variable Interest Rate Risk

GRU has both fixed and variable interest rate equity and debt. Variable rate equity would be represented by our short term investments in cash. Variable rate debt would be represented by the Tax Exempt Commercial Paper (TECP), and Taxable Commercial Paper (TCP). GRU's goal is to properly match interest income from assets with the interest expense from liabilities. However, that is not always practical. In addition, there are times when variable rate debt might become due, but the asset does not mature until a later time. For asset/liability mismatch or for timing differences, GRU sets aside reserves for those differences that might be experienced through an interest rate swing.

Reserve Fund Requirements

Reserve funds can provide financial insurance to allow GRU to reliably meet its financial obligations under adverse circumstances and can also serve as a means by which to smooth out required rate changes (particularly rate increases). Maintaining minimum financial reserves contributes to GRU's financial strength.

GRU is relatively unique in having five utility services. From a financial risk management perspective this is an advantage because the sources of risk are highly diversified.

For any one of the Risk Categories, the level of reserve required could differ by fund. For example, non-fuel revenue variability as a percentage of average revenue is higher for the Natural Gas system than for the Electric system.

Levels of risk can also vary markedly through time. For example, construction risk can vary widely from year to year for a given system depending to a large extent on the need for new infrastructure.

Accordingly, GRU has developed a policy for reserve funds that is formula-driven by the primary indicators of risk. Reserve levels proposed for any given year will be based on the budgeted numbers for that fiscal year.

Table 2 summarizes the analyses performed for FY 2010 pursuant to the preceding discussion.

Table 2

Source of Risk	FY 2010 Estimated Cash at Risk					Reserve Requirement
	Electric	Gas	Water	Wastewater	GRUCom	
Revenue CaFR_{97.5}¹	\$3,303,704	\$2,721,213	\$2,415,904	\$1,554,278	\$498,123	\$10,493,222
Catastrophic Events						
Uninsured Property Loss Exposure	6,661,000	955,000	1,543,500	1,278,000	753,000	11,190,500
Fixed Non-Fuel O&M (60 Days)	24,067,495	2,150,094	5,041,945	6,063,069	2,144,520	39,467,123
Construction Risk (5%)	2,975,727	242,008	700,865	824,681	284,714	5,027,995
Contingent Financial Liabilities	2,608,469	640,404	210,158	515,012	475,013	4,449,056
Totals	\$39,616,395	\$6,708,719	\$9,912,372	\$10,235,040	\$4,155,370	\$70,627,896

1. Cash Flow at Risk at a 97.5% Confidence Level

Minimum Reserves Formula

The following formula for minimum reserves, as applied to each system separately, then summed, will conservatively meet GRU's changing need for financial reserves through time. This assumes that existing policies for insuring centralized plant assets, managing fuel costs, managing swap and debt instruments, and budgeting for capital and debt service requirements are maintained. Reserves will be maintained at no less than:

- The difference between expected and the lower 97.5% confidence limit for non-fuel revenue; plus
- A percentage of the value of self insured distributed assets plus the deductible; plus
- Sixty days of average annual non-fuel operating expenses; plus
- Five percent (5.0%) of expected annual capital expenses; plus
- One-Hundred percent (100%) of the Swap payments due if the worst 1 month period over the last 10 years for each swap category recurs for a full year; plus
- One-Hundred percent (100%) of the un-hedged Variable Interest Rate risk

GRU has explored the criteria for setting financial reserves from the perspective of bond rating agencies, financial underwriters, bondholders, and other utilities. They consider a wide range of risk factors and risk management strategies, not all of which are simply financial reserves. These criteria were reviewed with our financial advisor who has confirmed that these criteria are appropriate.

Reserve Funds

GRU's funds that provide financial reserves to meet the requirements identified in this program are established under the Bond Resolution and include the:

- Rate Stabilization Fund (RSF)
- Utility Plant Improvement Fund (UPIF)

Rate Stabilization Fund

The RSF has two primary functions, to provide financial reserves and to help avoid rate shock. The preceding discussion primarily addressed the minimum RSF balance needed to meet financial reserve requirements. But the RSF is also used to anticipate utility revenue requirements and thereby smooth rate changes so customers do not experience a large swing in price at any given time.

Comment [KMS1]:

Utility Plant Improvement Fund

Pursuant to the Resolution, funds are deposited into the UPIF in amounts equal to 50% of the second preceding years' net operating revenues less aggregate debt service. The UPIF is primarily intended to provide a source of equity for continued capital improvements of the system. UPIF may also be used for O&M expenses but only if the amounts on deposit in the fund are in excess of the requirements. In the past, GRU has used UPIF to pay a portion of Debt Service in accordance with the Resolution, but is moving toward recovering Debt Service from rates. This will allow UPIF to be used as equity to improve GRU's overall debt/equity ratio, and also enhances the ability to

consider UPIF as a resource contributing to reserve requirements. GRU assumes that an amount equal to the uninsured exposure plus construction risk may be considered as financial reserves for purposes outlined here. Table 3 summarizes the available reserve funds

Table 3

Balances Projected as of October 1, 2009

Fund Name	Electric	Gas	Water	Wastewater	GRUCom	Total Liquidity*
Rate Stabilization Fund	\$ 41,181,674	\$ 6,900,862	\$ 926,208	\$ 6,035,999	\$ 5,384,425	\$ 60,429,168
Utility Plant Improvement Fund						
Amount Reserved for Liquidity	4,088,747	2,851,779	1,480,911	2,847,262	1,221,891	12,490,590
Amount Reserved for Equity	4,088,747	2,851,779	1,480,911	2,847,262	1,221,891	12,490,590
Subtotal	49,359,168	12,604,420	3,888,030	11,730,523	7,828,207	85,410,348
Commercial Paper Lines Available	23,000,000				25,000,000	48,000,000
Total	\$ 72,359,168	\$ 12,604,420	\$ 3,888,030	\$ 11,730,523	\$ 32,828,207	\$ 133,410,348