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Gainesville Regional Utilities

Quarterly Financial Report as of December 31, 2004



Basis of Accounting

The financial statements are presented on the accrual basis of accounting, under Generally Accepted Accounting Principles (GAAP). Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. Additionally, separate financial statements are presented in accordance with the Utilities System Revenue Bond Resolution (Bond Resolution). In the Bond Resolution statements, rates are designed to cover operating and maintenance expense, debt service and other revenue requirements, which exclude depreciation expense and other non-cash expense items.

The Bond Resolution financial statement method of reporting results in costs being included in the determination of rates in different periods than when these costs are recognized for GAAP financial statement purposes.

Gainesville Regional Utilities (GRU) has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the National Association of Regulatory Utility Commissioners (NARUC).

**GAINESVILLE REGIONAL UTILITIES
QUARTERLY FINANCIAL REPORT
DECEMBER 31, 2004**

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Definitions of Key Account Groups

Commercial & Industrial (General Service) – Natural gas and liquefied propane service provided on a firm, non-interruptible basis for any purpose except for residential purposes.

Debt Service – Accounts for funds accumulated to provide payment of principal and interest on, or to redeem, outstanding debt.

Electric Retail Sales – Sales to the ultimate or consuming customer includes residential, general service (demand and non-demand), large power, and City traffic signals, streetlights and green energy.

Fuel Adjustment – Revenue from fuel cost recovered from customers beyond the amount that is recovered in the base energy charge. GRU's cost of fuel for the electric system is passed directly through to its customers. The base energy charge includes a portion of the fuel cost, 6.5 mills, or \$6.50 per 1,000 kWh. Fuel cost beyond this amount is applied to customer bills as calculated monthly, via a fuel adjustment rate.

Fuel Expense – Purchased Gas – The purchase of natural gas, through contractual agreements and spot market purchases, is for direct distribution to our gas utility services.

Interchange Sales – Large blocks of energy sold to other utilities on a firm or non-firm basis. These sales are controlled through GRU's Control Area Services, which monitors excess availability of power generated.

Interest Income – As presented on our Flow of Funds Statement of Operating Income, it represents interest earnings on utility investments.

Internet Access – Revenue generated from the sale of retail Internet access. GRUCom provides dial-up Internet access services under the domain names GRU.Net and Gator.Net. High speed Internet access is also provided to commercial customers, government entities and to residents at several apartment complexes in the Gainesville area. High speed Internet access services are typically delivered to the customer location utilizing the GRUCom fiber optic network. Revenue from periphery services such as Web Site Hosting and e-mail only accounts are also included in this category.

Interruptible (Gas) – Natural gas service provided on a non-firm basis to nonresidential customers. This service is subject to interruption pursuant to the policies and conditions stipulated to by the customer and the System.

Nuclear Decommissioning\Fuel Disposal – As a partial owner of the Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy, GRU is responsible for its share of future decommissioning costs. These costs are expensed annually and recovered through rates charged to customers. The fuel disposal cost represents GRU's share of costs associated with safely disposing of CR3's spent nuclear fuel assembly units.

Operation & Maintenance Expense – Fuel – This represents the cost of the fuel supply needed to generate electric power, i.e. coal, oil and natural gas, as well as the fuel distributed directly to service accounts, i.e. natural gas.

Operation & Maintenance Expense – Non-Fuel – This represents all operating, maintenance and administrative costs needed to support electric power generation, transmission and distribution, water treatment and distribution, wastewater collection and treatment, and telecommunication services provided by GRU.

Other Debt Service Related – Accounts for funds paid out under a swap agreement for which savings under such swap are reflected in Debt Service.

Other Electric Sales – This includes wholesales sales (sales for resale) to City of Alachua and Seminole Electric Co-op, traffic signal and streetlight sales to the City and County.

Other Gas Sales – Includes other miscellaneous sales not specifically identified in other categories, such as Liquid Propane (LP) sales.

Other Revenue (Electric) – This includes miscellaneous revenue receipts not specified in other categories, such as commercial lighting and service charges.

Other Revenue (Gas) - This includes miscellaneous revenue receipts not specified in other categories, such as service charges.

Other Revenues (Water) – This includes connection fee charges for water service to new service locations plus miscellaneous revenue receipts not specified in other categories.

Other Revenues (WW) – This includes connection fee charges for wastewater service to new service locations plus miscellaneous revenue receipts not specified in other categories.

Rate Stabilization Fund Transfer – This fund accounts for monies accumulated as a reserve for unplanned events, revenue changes, forecasting errors or unexpected losses and to stabilize rates over future periods through the transfer of funds to and from operations as necessary.

Residential Gas Sales – Natural gas and liquified propane service provided on a firm, non-interruptible basis to households and other nonprofit living units.

Surcharge – Additional charge to customers in the unincorporated service area, i.e. Electric – 10%, equal to the electric use tax; Water – 25% and Wastewater – 25% both per F.S Chapter 180.

Telecommunications Revenue – Includes revenue for sales of point to point and carrier access circuits delivered in whole, or in part, on the GRUCom fiber optic network. These sales are primarily to other telecommunications carriers, commercial customers and government entities requiring high bandwidth connections for delivery of data, voice and video signals. Also includes revenues from switched services provided by GRUCom. Currently GRUCom utilizes its voice switch to provide call in lines for dial-up access to Internet Service Providers including GRU.Net/Gator.Net.

Tower Lease Rental – Revenue generated in conjunction with the lease of space on the City's communication and water towers for the location of antennas and related equipment. These leases are primarily with Cellular and Personal Communications Services (PCS) companies offering wireless communications in the Gainesville area. Also includes revenue from the rental of interface equipment to customers (Routers, Channel Service Units/Data Service Units, etc.) necessary for them to connect to GRUCom services delivered over the fiber optic network.

Trunking Radio – Revenue generated by the 800 MHz radio system, delivering switched voice and data services for public safety and other government entities. Revenues are collected through monthly subscriber unit charges.

UPIF Contributions – The Utility Plant Improvement Fund (UPIF) accounts for funds used to pay for certain capital projects or debt service, the purchase or redemption of bonds, or otherwise provide for the repayment of bonds. The contribution level is established under a formula set forth in the Bond Resolution. It represents the equity that the utility puts back into the system.