

Gainesville Regional Utilities
Budget to Actual Supplementary Data
For the Year Ended September 30, 2015

LEGISTAR 150693B

Management's Discussion and Analysis

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the period ended September 30, 2015. It should be read in conjunction with the unaudited interim financial statements that follow this section.

Financial Highlights

Electric System

- Retail sales came in slightly higher than budget for both residential and non-residential sales. This correlates to the slighter higher heating and cooling degree days observed during the year over the forecasted amount.
- Fuel adjustment revenue collected above the expense is reflected as a contribution to the fuel levelization balance, while the revenue collected below the actual expenses necessitates a withdrawal from the fuel adjustment levelization balance. This results in the revenue being reported as equal to the expense in the financial statements with the difference reflected as a change in levelization. The fuel adjustment levelization fund increased by \$1.6 million due to the cost of fuels coming in below budget while the fuel adjustment rate remained constant.
- Other revenues came in greater than budgeted for the year mainly due to a return of the Employees' Disability Pension Fund of \$2.6 million and a release of an internal reserve for the CR3 nuclear plant of \$900,000.
- Fuel and purchased power expense came in below budget due to favorable gas pricing and utilizing greater gas generation than planned over higher cost coal generation.
- Steam power generation expense came in nearly \$2 million below budget for the year due to Deerhaven outage costs being deemed capital in nature due to the extensiveness of a turbine rebuild.
- Other power generation expenses were \$213,000 higher than budgeted. Combustion turbine work at the Kelly plant contributed most of the cost while the painting of Kelly's fuel tanks contributed \$48,000 of the overage.

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- Transmission and distribution expenses were down compared to budget for the year mainly due to labor. Vacancies in System Control were the predominate factor.
- Customer Accounts and Sales expense came in under budget for the year. Audit fees budgeted in Customer accounts has been recoded as Administrative and General, creating a \$375,000 variance. Labor vacancies higher than budgeted contributed \$373,000 to the total variance from budget for the year.
- Administrative and General expense ended the year higher than budgeted. The primary driver behind the overage is a decrease in capital spending creating a shift of more expenditures going into O&M. An additional driver was ending the practice of the electric system charging rent to other systems for common plant paid for and held in the electric system.
- The electric system contributed \$2.3 million to rate stabilization for the year ended September 30, 2015, in comparison to a budgeted withdrawal of \$5.2 million.

Water System

- Both residential and non-residential water sales were below budget for FY15. While the service area experienced higher than historical rainfall for the year, it is believed that continued customer conservation and trend of using less water for irrigation is the primary factor in lower sales than were forecast.
- Water sales to the University of Florida were 11.6% above forecasted amounts.
- Surcharge revenues tend to follow overall water sales and reflect a lower revenue collection for the year.
- Other revenues in the water system came in above budget from two items. Monies collected from the Connect Free program were returned to GRU in the amount of \$475,000 as well as a return of \$459,000 from the Employees' Disability Pension Fund.
- Pumping and water treatment costs came in below budget by \$943,000. Labor costs were \$300,000 below budget due to higher vacancy rates. Costs associated with the lower than planned production include decreases in electricity by \$380,000 and reduced chemical usage by \$190,000.

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- Water transmission and distribution costs were below budget for FY15 due to lower labor costs from higher than planned vacancies.
- Customer Accounts and Sales expense came in below budgeted amounts. Primary drivers were higher vacancy rates, lower than planned advertising and moving audit fees to the Administrative and General line of the financial statements.
- Administrative and General expense ended the year higher than budgeted. The primary driver behind the overage is a decrease in capital spending creating a shift of more expenditures going into O&M.
- The water system contributed \$2.4 million to rate stabilization for the year ended September 30, 2015, in comparison to a budgeted contribution of \$2.1 million.

Wastewater System

- Both residential and non-residential wastewater billing follow water sales, but with less seasonality. Wastewater billing volumes were below what was forecasted.
- Other revenues in the wastewater system came in above budget. A return from the Employees' Disability Pension Fund provided \$601,000 of the variance and the balance was greater than forecast connection revenue for the year.
- Wastewater collection and treatment costs came in below budget for the year. Higher vacancies contributed to lower than planned labor costs. Lower than planned water treatment volumes kept electricity and chemical costs below budget for the year.
- Customer Accounts and Sales expense came in below budgeted amounts. Primary drivers were higher vacancy rates and moving audit fees to the administrative and general line of the financial statements.
- Administrative and General expense ended the year higher than budgeted. The primary driver behind the overage is a decrease in capital spending creating a shift of more expenditures going into O&M.
- The wastewater system contributed \$2.9 million to rate stabilization for the year ended September 30, 2015, in comparison to a budgeted contribution of \$1.8 million.

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Gas System

- Heating degree days for FY15 were higher than historical average which is the basis for forecasted sales. Both residential and non-residential revenues exceeded budget for the year.
- Purchase gas adjustment revenues were below budgeted due to favorable market for gas prices in FY15. The PGA charge was lowered from \$0.46/therm to \$0.30/therm for the last five months of the year. Also contributing to the lower purchase gas adjustment revenue greater than budget is the addition to the PGA levelization balance of \$1.2 million.
- Other gas sales came in higher than budget due to a higher than planned recovery from the manufactured gas plant/Depot Park.
- Other revenue was greater than budget due to the return from the Employees' Disability Pension Fund.
- Gas fuel expenses ended the year lower than budget due to favorable market for gas prices in FY15. The PGA charge was lowered from \$0.46/th to \$0.30/th for the last five months of the year. Also contributing to the lower purchase gas adjustment revenue greater than budget is the addition to the PGA levelization balance of \$1.2 million.
- Operation and maintenance costs for the gas system came in below budget.
- Customer Accounts and Sales expense came in above budgeted amounts. Allocated costs for customer service areas were increased to reflect proper utilization of services by the gas system.
- Administrative and General expense ended the year higher than budgeted. The primary driver behind the overage is a decrease in capital spending creating a shift of more expenditures going into O&M.
- The gas system contributed \$1.6 million to rate stabilization for the year ended September 30, 2015, in comparison to a budgeted contribution of \$301,000.

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Telecommunications (GRUCom) System

- All GRUCom sales categories were down for the year compared to budget except for tower leasing, which was 19% greater than budget for the year. Total sales of service were down 7.9% compared to budget for the year.
- Other revenue was greater than budget due to the return from the Employees' Disability Pension Fund.
- Operation and maintenance costs for GRUCom came in above budget for the year. GRUCom has reduced capital spending over recent years, resulting in less capital overhead being applied to capital jobs. This change has resulted in greater labor costs reported as O&M.
- Customer Accounts and Sales expenses were below budget for the year. Unlike the gas system, allocated costs for customer service areas were decreased to reflect proper utilization of services by GRUCom.
- Administrative and General expense ended the year higher than budgeted. The primary driver behind the overage is a decrease in capital spending creating a shift of more expenditures going into O&M.
- The telecommunications system withdrew \$1.4 million to rate stabilization for the year ended September 30, 2015, in comparison to a budgeted withdrawal of \$161,000.