

GENERAL MANAGER

June 27, 2002

Dr. Mary Chambers
Superintendent of Schools
School Board of Alachua County
620 East University Avenue
Gainesville, FL 32601

Dear Dr. Chambers:

As I described in my June 24, 2002 letter, the City Commission's Regional Utilities Committee met yesterday, June 26, to consider the School Board staff's request for special electric rate considerations. The Committee was very supportive of the recommended commitment to help your organization meet its' cost objectives in every way possible without changing policies and tariffs in a manner that would shift costs to other customers or City operations.

In addition to the 13% base rate reduction the School Board has received as the result of the recent and very substantial electric rate changes, GRU stands ready, willing and able to work with your staff to:

1. Implement a master pay program, which will allow your organization to levelize your utility bills on an annual basis;
2. Enter into Interruptible/Curtailable rate agreements; and
3. Provide technical assistance on methods to optimize your energy management systems to improve the load factor of your facilities thereby reducing costs without adversely affecting school operations.

Please advise your staff to contact Mr. Bill Shepherd (334-3400 ext. 1483) who will serve as a conduit to the resources we can bring to bear to help the School Board. I am looking forward to the progress we can make by working together on these important matters.

Sincerely,

Michael L. Kurtz
General Manager

cc: Mayor and City Commission
Keith Birkett
Wayne Hackett
Ken Lowman
Bill Shepherd

**ANALYSIS OF THE SCHOOL BOARD OF ALACHUA COUNTY'S
REQUEST FOR
ELECTRICAL RATE DISCOUNTS**

**Report to the Regional Utility Committee
Of the
Gainesville City Commission**

**Gainesville Regional Utilities
June 26, 2002**

SUMMARY AND RECOMMENDATIONS

The School Board of Alachua County (SBAC) is, in aggregate, Gainesville Regional Utilities' (GRU's) single largest retail customer. The SBAC's combined facilities impose slightly over 12 MW (mega-watts) of average annual electrical demand, consuming 41,567,000 kWh (kilowatt-hours) of energy per year. The recent changes to GRU's electric rates will result in annual savings of \$243,400 per year, representing a 13% reduction of the SBAC's base rate cost.

SBAC representatives have requested that special electric rates be developed to obtain an additional 10% reduction in total utility costs for the SBAC. This would require a 15.5% reduction in base rates, since fuel costs are passed directly through to customers at cost. Subsequent dialog also revealed that variations in electrical consumption and fuel cost exert a hardship on the SBAC budget and planning process.

GRU staff has worked with SBAC staff and consultants to identify eight alternatives for meeting the SBAC's objectives. Three of these alternatives combine to meet the SBAC's objectives and will not adversely affect other GRU customers or the general fund transfer. These recommended alternatives and their associated base rate savings potential for the SBAC include:

1. Establishing a "Master Pay" account under a memorandum of understanding to levelize utility payments with annual true-ups (improves budgeting and cash flow management for the SBAC);
2. Entering into Interruptible/Curtailable agreements with GRU under existing tariffs for the two schools that qualify as Large Power Accounts (potentially a 2% annual base rate reduction of \$30,000 per year); and
3. Improving the load factor of all the SBAC's facilities by 10%, from the current 39% to 43% (potentially a 10% annual base rate reduction of \$160,000 per year).

None of these recommendations require City Commission approval to allow GRU and SBAC to proceed with implementation.

GRU can not recommend any of the other five major alternatives for one or more of the following reasons:

1. Adverse impacts on GRU's other ratepayers or the General Fund transfer;
2. High implementation costs; and
3. Increased price variability and risk for the SBAC budget.

PURPOSE AND SCOPE

GRU as an organization, and its staff as individuals, are very concerned with the education and welfare of the children in the community. GRU has a history of providing benefits to the SBAC through special projects and programs in addition to providing electric, water, wastewater, natural gas and telecommunication services at competitive rates. The identification and evaluation of alternatives to achieve the SBAC's objectives took substantial time and effort, and it is important to document the key points of the concepts and issues discussed, as well as the results of financial evaluations. Accordingly, this report is organized into the following four sections:

1. GRU's Commitment to SBAC's Mission;
2. The Study Process;
3. Mutual Gain Premises; and
4. Alternatives Analysis.

GRU'S COMMITMENT TO SBAC'S MISSION

Gainesville Regional Utilities (GRU) has a long-standing and substantial organizational commitment to children, parents, and faculty that the SBAC serves. This commitment extends much further than the just providing electric, water, wastewater, natural gas, and telecommunication utilities. This commitment includes not only corporate resources, but also volunteer hours from staff spent mentoring and tutoring students. GRU has donated surplus computers, and provided access to cultural activities, student transportation services, and other forms of program support with an economic value of \$898,800 excluding the value of staff volunteer time (see Attachment A). GRU

also obtains \$164,000 per year of federal reimbursements, available only through telecommunications providers, for SBAC to fund Internet access and the data networks connecting its facilities. GRU's efforts received the State Commissioner of Education Business Recognition Award in 2001 (see Attachment B).

THE STUDY PROCESS

On March 11, 2002, a consultant from CUE (Commercial Utility Econometrics), on the behalf of the SBAC, requested that the Gainesville City Commission develop special rates to reduce electric costs for the School Board's facilities in GRU's service territory. The Commission referred this request to the Commission's Regional Utilities Committee. After receiving a presentation from the CUE representative on March 28, 2002 the Committee requested that staff meet with CUE and School Board representatives to evaluate the issues, concerns, and merits of their request.

A meeting of GRU, CUE, and SBAC staff was held on May 25, 2002 to begin the evaluation process. GRU staff took care to apply the concepts of "Mutual Gains" negotiation, which begins by identifying each parties' needs and objectives, and brainstorms alternatives for meeting each parties' objectives without commitment to any idea or alternative. At that time GRU committed to documenting the meeting and pursuing an evaluation of the alternatives that were identified.

A second meeting was held on June 17, 2002. Despite having been scheduled weeks in advance, only GRU and CUE staff attended. The summary documentation from the previous meeting and the analytical results from analysis of SBAC consumption record were reviewed in detail at that time.

MUTUAL GAIN PREMISES

SBAC Objectives. The primary stated objective of the SBAC was to obtain a 10% reduction in total utility costs. This would be in addition to the reductions from the electric rate changes recently adopted by the City Commission, which will result in a 13% reduction in electric base rates for SBAC (worth \$243,400 per year, see Table 1). The rationale for requesting special treatment by GRU were stated in the document included as Attachment C, as summarized below:

- SBAC has funding shortfalls and utility cost savings will help maintain student services;
- SBAC should be compensated for lack of ad valorem taxes from GRU facilities being tax-exempt;
- There are precedents for School Boards receiving special rates in Florida and the SE USA.

A secondary SBAC objective emerged as the discussion preceded, which was to improve the predictability of SBAC utility costs. Variations in consumption and price due to weather and fuel markets apparently have adverse effects on the SBAC's cash flow management, planning, and budgeting.

GRU's Objectives. GRU's objectives included:

- Avoiding increased utility costs within a customer class and harm to the General Fund transfer as the result of preferential treatment of a specific customer.
- Retaining and expanding the retail customer base in a manner beneficial to customers and the General Fund transfer.

Other Potential Considerations. During the brainstorming process, a number of potential considerations that the SBAC could make to the benefit of GRU and the City of Gainesville ("City") were identified. These included: a) making GRU the SBAC's "Energy Sponsor"; b) firm long-term contracts without the opt-out provisions of the current Business Partners Agreements; c) contracting for GRU to serve facilities outside of GRU's territory in the event of retail deregulation; d) automatically annexing properties into the City once they become contiguous to City boundaries; e) co-use of recreational facilities; and f) adopting the City's land use and development standards.

Parking Lot Issues. In the mutual gains process, "parking lot" issues are disagreements about expressed opinions that are heard but dropped as not being material to further discussion. Unique electric rates as suggested for the SBAC are contrary to Federal and Florida Public Service Commission (FPSC) standards, which are designed to avoid preferential treatment for customers within a customer class. GRU staff researched every example cited by CUE representatives for utilities in Florida. It was found that the examples cited were participating in approved tariff rider programs similar to GRU's Business Partner's discount. In general, these programs are equally available to all customers within a rate class and the programs have been demonstrated to the FPSC's satisfaction to benefit all ratepayers by avoiding stranded costs.

One of SBAC's stated premises is that it should be compensated for property tax revenue not obtained due to GRU's tax-exempt status. The community as a whole receives far more value from GRU as a municipal utility than it would from an investor-owned utility. General fund transfers from GRU help provide community services (police, fire, roads, parks, recreation programs, etc.) which directly benefit the SBAC and its target population. Furthermore, if this were truly a defensible position, SBAC loses more revenue by virtue of the preponderance

of state and federal facilities in the community than from GRU's tax-exempt status.

ALTERNATIVES ANALYSIS

Following are the eight (8) major alternatives jointly identified for reducing SBAC's electrical costs or reducing cost variability. These include:

- Load Aggregation
- Seasonal Charges
- Interruptible/Curtailable Rates
- Real Time Pricing
- Budget Billing
- FLEX Rate
- Consolidated/Master Bill
- Load Factor Improvement

To facilitate the alternatives evaluation, GRU staff extracted calendar year 2001 consumption and billing records for all of SBAC's metered electric services to use as the basis for the alternative evaluations (as appropriate). Many of SBAC's facilities do not have demand meters on them. To evaluate aggregation alternatives, it is necessary to know the demands involved from all meters. Demands were estimated in these cases from energy consumption assuming a 52% load factor. The results of these evaluations are presented in Table 1 and described further below.

In addition, GRU's GIS system was used to establish which meters were associated with a common site. It is common for SBAC buildings to have separate distribution feeders and meters at a given facility site. Usually these design decisions were made by the SBAC staff after evaluating the between the cost of consolidating electric loads and the savings on electrical rates by consolidating loads.

1. Load Aggregation

- All SBAC accounts added up and billed under large power rates, or
- All accounts added up at each site and billed under rate applicable to combined usage.

Rationale: JEA has a tariff rider like this

Discussion: GRU has already worked extensively with SBAC staff to determine which meters might cost-effectively be consolidated at each site. Aggregation as a general policy would be a very expensive proposition for GRU's other customers. As shown in Table 1, this would reduce base rate revenues by \$2,440,000 per year. JEA has adopted

aggregation as part of their customer retention program, whereas GRU has adopted the Business Partners program. Aggregation ignores the true costs of power distribution as well. SBAC staff has suggested that aggregation might only be made available to customers with an aggregated load of 10 MW or more, thus eliminating the financial cost of offering this advantage to all similarly situated customers. GRU staff believe that the institution of a rate that can only include one customer will create discontent among GRU's other large customers, will not meet the FPSC's standard for rate design, and still ignores the true costs of service, resulting in cost shifting to other customers.

2. Seasonal Demand

- Have different charges depending on season

Rationale: SBAC usage is much less in summer when capacity has greatest value and fuel costs are high.

Discussion: Since GRU sets its demand rates on revenue recovery basis, there is no seasonal difference in value for retail capacity prices. The value of capacity in the wholesale economy market is captured in GRU's Interruptible/Curtailable tariff, which is available to the SBAC. There is a seasonal difference in fuel costs (high in summer) which is passed through in the fuel adjustment and which SBAC tends to avoid through its normal consumption pattern. SBAC facility peak demands coincide with GRU's peak demands in the late spring and early fall while school is in session. GRU sees no justification in creating a seasonal energy charges.

3. Interruptible/Curtailable Rates

- Enter into GRU's Interruptible/Curtailable tariff rider.

Rationale: Operational/cost flexibility for GRU, and SBAC has sophisticated energy management control systems.

Discussion: This option is available to SBAC's two large power facilities. The maximum economic savings would be for SBAC to commit 100% of the load at each facility to the program, but SBAC could choose to commit less. A concern is that these facilities are emergency shelters, and are otherwise listed as high priority for service restoration. While this is a consideration, in general emergency shelters are needed during times when GRU has excess generation capacity in relation to load.

4. Real Time Pricing

- Allow SBAC to shed load during peak cost periods.

Rationale: Allow SBAC to minimize electrical costs.

Discussion: GRU currently does not have the administrative systems in place to bill retail customers on this basis. Furthermore, this program exposes the users to much greater price volatility, and unless the participant, unlike the SBAC, has a high percentage of discretionary load, can not benefit from this concept.

5. Budget Billing

- Levelize fuel adjustment and payment schedules.

Rationale: Assist budget process.

GRU is willing to develop a memorandum of understanding under a "master pay" account, to accommodate this need. An average monthly utility bill would be set in advance, including true-ups as needed from the preceding year.

6. FLEX Rate

- Enter into contract with City Commission to reduce proportion of billed amounts allocated to general fund transfer, pursuant to GRU's load retention, expansion and attraction tariff rider.

Rationale: SBAC needs funds to "expand" programs.

Discussion: GRU has a load retention, expansion, and attraction tariff rider (the FLEX rate) that allows the City Commission to reduce the general fund transfer from a customers charges when financial benefit to the community has been demonstrated to be in excess of the forgone general fund revenues. A ten-year firm service and annexation agreement is also required. The maximum allowable reduction (for 4 years) is shown in Table 1. The only possible applicability of this tariff would be if the SBAC were to demonstrate some improved level of service or other community benefit directly accruing from electric bill reductions.

7. Consolidated/Master Bill

- Receive one consolidated bill.

Rationale: Reduce administrative costs.

GRU is willing to accommodate this request.

8. Load Management

- Improve SBAC Load factor

Rationale: Take advantage of GRU's new rate structures.

Discussion: GRU's new rate structures are designed to encourage load factor improvement. An improvement of the SBAC's load factor from 39% to 43% would result in cost savings of \$160,000 per year.

W:\U0070\ACSB\Request Analysis.doc

TABLE 1
FINANCIAL ANALYSIS OF PRICING ALTERNATIVES EVALUATED
TO REDUCE ACSB ELECTRIC COSTS

SBAC CONSUMPTION DATA
CALENDAR YEAR 2001

PARAMETER	VALUE
Average Peak Monthly Demand*	12,183
Average Monthly Energy Use	3,463,883
Annual Energy Use	41,566,598
Average Annual Load Factor	39%

* Demand for GSND estimated with an assumed 52% system average load factor.

ESTIMATED EFFECTS ON COMMERCIAL BASE RATE CHARGES

SCENARIO	SBAC BILL	SBAC Reduction AMOUNT	SBAC Reduction %	System Revenue	Total Sys. Reduction AMOUNT	Total Sys. Reduction %
Rates Prior to June 1, 2000	\$1,916,964	n/a	n/a	\$37,691,587	n/a	n/a
Rates As Oct. 1, 2002 (w/ new BP)*	\$1,673,596	\$243,368	-13%	\$33,701,981	\$3,989,606	-11%
Aggregate Accounts By Site (lowest applic. Rate)	\$1,643,294	\$30,302	-14%	unk	unk	unk
Aggregate All Accounts (to LP rates)*	\$1,500,145	\$173,451	-22%	\$31,262,795	\$2,439,186	-7%
Interruptible Rate at KMS, GHS (100% of load)*	\$1,648,411	\$25,185	-14%	n/a	n/a	n/a
Improve Monthly LF 10%*	\$1,512,766	\$160,830	-21%	n/a	n/a	n/a
Flex Rate, All Accounts (Max. Amount)*	\$1,456,029	\$217,567	-24%	n/a	n/a	n/a

* Reduction from rates prior to June 1, 2002. Flex rate only extends 4 years.

Attachment A
GRU Commitment to Alachua County School Board

ATTACHMENT A
GRU COMMITMENT TO THE SCHOOL BOARD OF ALACHUA COUNTY

DATE	ITEM	COST
	MINI-GRANTS	
1999/2000	Mini-Grants	\$4,086.99
2000/2001	Mini-Grants	\$2,700.00
2001/2002	Mini-Grants	\$4,000.55
	TOTAL	\$10,787.54
	GAME DAY WITH THE GATORS	
Sep-99	Game Day T-shirts	\$19,494.10
Apr-01	SBAC Teacher Recognition Program	\$300.00
Fall 2000-Spring 2002	School Ads (various e.g. yearbook, programs)	\$1,630.00
Fall 99-Spring 2001	Tickets, refreshment coupons, transportation	\$17,009.00
2001-2002	Tickets, refreshment coupons, transportation	\$6,320.07
	TOTAL	\$44,753.17
	PERSONAL COMPUTERS	
1999 to Present	Personal Computers Donated to SBAC (orig. purchase cost)	\$457,818.39
	TOTAL	\$457,818.39
	WILLIAMS ELEMENTARY	
1998-1999	Graduation, Teacher Appreciation Week, Classroom Sponsorship	\$343.80
1999-2000	Gift Certificate for Art Contest Winners, Refreshments for Chorus	\$613.11
2000-2001	Teacher Appreciation Week and Chorus Performance	\$388.75
2001-2002	Game Day Costs, Carnival, BP Reception*	\$989.56
1998-2002	Fundraisers for Williams Elementary (dinners, golf tournament, ticket raffle, etc)	\$7,900.00
	TOTAL	\$10,235.22
	KANAPAHA MIDDLE SCHOOL	
1998-1999	Student Demonstration Reclaimed Water Garden	\$100,000.00
1999-2000	Reclaimed Water Irrigation System	\$10,000.00
		\$110,000.00
	Partners for a Better Community (Gainesville Sun, Shands, GRU)	
2001	Ads/activities as part of 2001	\$20,603.00
	TOTAL	\$20,603.00
	GRUCom	
1999 to Present	Exempted installation fees for educational use only	\$45,000.00
1999 to Present	Federal "e-rate" grants (annual recurring amount of \$164,600) To date...	\$199,564.00
	TOTAL	\$244,564.00
	GRAND TOTAL	\$898,761.32

ATTACHMENT B

NEWS RELEASE

(352) 334-3400
P.O. Box 147117, Station A118
Gainesville, FL 32614
www.gru.com



FOR IMMEDIATE RELEASE

FOR MORE INFORMATION:
Dan Jesse, 334-3400, ext. 1485

GRU Receives State Commissioner of Education Business Recognition Award

GRU was presented with the Alachua County Business Partners of the Year award by Florida Commissioner of Education Charlie Christ during an awards presentation in Orlando on March 1. Rick Davis, GRU Water Plant Manager and school volunteer, accepted the award on behalf of GRU. GRU was recognized for its involvement with its adopt-a-school, Joseph Williams Elementary, and for initiatives with other schools in the district.

GRU employees have donated resources, time and talent including: landscaping the school grounds, planting a butterfly garden, providing food for parent training workshops, collecting back-to-school supplies and raising funds to purchase a digital camera. GRU also offers many district-wide initiatives including a school donation program for its surplus computers, and taking elementary and middle school students and parents to Gator sporting events.

Other state award winners included First Union National Bank, The Jacksonville Jaguars Foundation, The Miami Heat Group, Publix Super Market, Coca-Cola and others.

March 4, 2001

SUMMARY PAGE




School Power Discount


Why?

Because.....

- General Fund Transfer will not be affected
- GRU is making record profits. Utility cooperatives return all profits to customers and investor owned electric companies are required to return excess profits to their customers.
- GRU's electric system was exempted from \$4.2 million dollars in school assessment fees for 2001. Florida Power Corp., Florida Power & Light and Clay Electric Cooperative pay these taxes for schools.
- Other large GRU customers have received special rates and benefits for many years.
- Alachua County public school system is GRU's largest external electric customer.
- The public school budget has a great impact on minority and low income populations.
- Many utility providers offer public schools discounted electric rates.
- Energy conservation has resulted in higher electric costs for some schools.
- Utility rates for schools in Gainesville are higher than surrounding counties that have FPC, Clay, and JEA as their electric providers.



General Fund
Transfer will not
be affected



Rate proposed is
a discount for
Alachua County
public schools.



School Power Discount

Information page 1

**Our schools
are facing
an urgent
financial crisis**

- General Fund Transfer (GFT) will not be affected. Because GRU changed the way the GFT is made, no decrease to City government is necessary.
- GRU is making record profits. GRU has over \$ 1 billion dollars in assets and had retained earnings of over \$ 276 million in 2001-GRU Annual Report 2001.

• Other large GRU customers have received special rates and benefits for many years including:

<i>Doubletree Hotel</i>	<i>Bear Archery</i>
<i>VA Hospital</i>	<i>University of Florida</i>
<i>Santa Fe Community College</i>	

• Alachua County public school system is GRU's largest external electric customer. (Only the City of Gainesville is larger). In a deregulated environment, this history of support, can influence the local schools to choose GRU as its supplier for facilities in outlying areas.

• Energy conservation by the schools has resulted in higher electric costs for many local schools. Load management systems that reduce peak demand have cost schools because of GRU rate structures. For example, Eastside High, Buchholz High and Kanapaha Middle School can save over \$ 60,000 next year on electricity by using between \$10 and \$ 800 more in electricity.

• Utility rates for schools in Gainesville are higher than surrounding counties that have Florida Power Corp., Clay Electric Cooperative, and Jacksonville Electric Authority as their electric providers.

*Net Electric Revenues
after transfer to the City
-GRU 2001 Annual Report*

\$ 35,588,000

GRU 2001 Electric Net Revenues

\$ 17,618,000

GRU 2000 Electric Net Revenues



School Power Discount

Information page 2

- GRU's new rate structure is designed to benefit high "Load Factor" accounts— GRU Rate Workshop 11/19/01. This is only one parameter of usage that benefits GRU. Seasonal load factors also benefit electric companies. The electric load for schools is lowest in summer months when GRU electric system demands are high. The schools' electric load is highest in winter months when GRU electric system demands are low. Local schools that are energy efficient do not have good load factors.


GRU Summer Reserve Capacity is 49%

GRU Winter Reserve Capacity is 77%


GRU Strategic Planning Dept. Information 9/19/01

(The Florida Public Service Commission recommends 15% Reserve Capacity)

- Most school electric service is billed on GRU's GSD Rate. If electric service rates were based on the cost of service, GSD rates would need to be reduced 23.64%-GRU results of FY 2000 Cost of Service Study.
- The public school budget has a great impact on minority and low income populations. Many of the schools serving low income students have high per student electric costs.
- GRU needs to enhance the trust of the public schools. This and more can be accomplished by adopting the proposed rate.



GRU spends \$ 500,000 per year to be the Official Energy Sponsor of the Florida Gators. Many Gainesville citizens would find this level of support for public schools to be a more persuasive and less expensive demonstration of GRU's commitment to the community. The beneficiaries include all of Alachua County permanent residents— not just Gator fans



School Power Discount

Information page 3

**Balancing the
books for
GRU's future
customers**

- School Rates are common throughout the U.S. Other utilities make this commitment to their community. Many pay property taxes and offer school rates.

FLORIDA	ARKANSAS	WISCONSIN
COLORADO	OREGON	KANSAS
SOUTH CAROLINA	NORTH CAROLINA	IOWA
VIRGINIA	MASSACHUSETTS	ILLINOIS
LOUISIANA	GEORGIA	CONNECTICUT
ALABAMA	MISSISSIPPI	NEW MEXICO
ARIZONA	CALIFORNIA	OHIO
TEXAS	WASHINGTON	RHODE ISLAND

- School Rates are available with Investor owned utilities, Rural Cooperatives and Municipal Utilities. Jacksonville Electric Authority offers a multiple account discount rate that is particularly beneficial to schools. This rate allows for coincident peak billing and an aggregation of accounts for the best rate. Many of the utility companies that offer a school discount rate also pay property taxes.

Proposed Rate

School Power Discount: This rate is applicable to electric service required by any public institution under the direct administrative authority of the School Board of Alachua County providing formal educational training for kindergarten, elementary, middle, or high school students. The percent electric discount shall be equal each year to the millage rate of the school assessment taxes for property in Alachua County.

Projected annual savings for the schools = \$ 210,000-\$350,000

Mississippi Power
School Load Discount 18.7%
SBAC Equivalent = \$ 585,600/yr

JEA
Multiple Account Rider
SBAC Equivalent = \$ 347,879/yr

Gulf Power Corp
School Load Discount 7.357%
SBAC Equivalent = \$230,275/yr

City of Austin
30% discount on Demand Charges
SBAC Equivalent = \$ 96,000/yr