

A Gainesville Solution

The Energy Competitiveness Report

Gainesville Area Chamber of Commerce
Council for Economic Outreach
November 2013



Energy Study Group Charge

- Purpose: Develop policy guidance designed to help us remain a competitively advantaged community for sustainable economic development as it relates to overall energy costs
- Goal 1: Recommend a peer utility group
- Goal 2: Recommend a governance structure
- Goal 3: Recommend a cost benchmark
- Goal 4: Recommend a revenue transfer level



Deliberative Process

- 35 private and public meetings held in 2013
- Meetings held over 7+ months
- 86% of meetings private and 14% public
- 2 Public appearances before City Commission
- 2 Public appearances before County Commission
- 1 Chamber public meeting in East Gainesville

Engagement Meetings Held

- Mayor Braddy (2x)
- Finance Dir. Benton (2x)
- GRU GM Hunzinger (2x)
- GRU CFO Hunt (2x)
- GRU Dir. Jones (2x)
- GRU Mgr. Wilson
- Florida Municipal Electric Association
Ex. Dir. Moline
- City Com. Chase
- City Com. Hawkins
- City Com. Bottcher
- City Com. Hinson-Rawls
- City Com. Poe
- City Com. Wells

Engagement Meetings Cont'd

- State Rep. Perry
- Frmr. Mayor Hanrahan
- Frmr. Cnty. Com. Wheat
- Frmr. PSC Com. Skop
- Frmr. City Com. Little
- UF VP Bus Aff Reynolds
- UF AVP Bus Aff Chorlog
- Airport Chair Fletcher
- Airport CEO Penksa



Peer Utility Cost Comparison

- Problem: Gainesville is less competitive than many cities in Florida and in the United States
- Fact: Gainesville energy costs rank among the highest in Florida and in the United States
- Recommendation: Benchmark Costs to Peer Mean
- Details: GRU retail commercial and industrial rate costs in all categories shall be targeted to be the average total costs of municipal utilities in Florida and must not exceed one-half of one standard deviation above the mean/average total costs of municipal utilities in Florida



Why Benchmark?

- Rationale: *“It’s hard to improve when you have no one but yourself to follow.” John C. Maxwell*
- Benchmarking (Value Proposition):
 - Intentional goal to reduce utility rates to level of peers
 - Reduced rates makes Gainesville more competitive

Gainesville Rates Higher

Commercial Electric Rate Comparison - Select Florida Cities (January 2013)
Arranged by Price of Demand - 150 KW - 30,000 KWH Service (Amounts in \$)

		<i>Demand - 150 KW - 30,000 KWH</i>			<i>Demand - 150 KW - 60,000 KWH</i>		
	CITY	Base Rate	Fuel or Cost Adjustment	Total	Base Rate	Fuel or Cost Adjustment	Total
1	GAINESVILLE	\$2,990.10	\$1,530.00	\$4,520.10	\$4,342.50	\$3,060.00	\$7,402.50
2	FORT PIERCE*	3,828.60	60.00	3,888.60	6,602.40	120.00	6,722.40
3	NEW SMYRNA BEACH*	2,996.00	748.80	3,744.80	4,946.00	1,497.60	6,443.60
4	JACKSONVILLE*	2,370.10	1,308.00	3,678.10	3,395.20	2,616.00	6,011.20
5	KISSIMMEE*	4,432.54	-829.50	3,603.04	7,476.04	-1,659.00	5,817.04
6	ORLANDO*	2,084.10	1,200.90	3,285.00	2,938.20	2,401.80	5,340.00

Source: Florida Municipal Electric Association.

* Appointed Utility Authority in Florida.

N.B. Base rate includes customer charge.



Gainesville Less Competitive

Gainesville Demand – 150 KW-60,000 KWH

**Commercial Electric Rates in January 2013 Compared
to Cities in Florida with an Appointed Utility Authority (AUA)**

Total Energy Costs Compared to Florida AUA Cities

Gainesville is 10.1% Higher than Fort Pierce

Gainesville is 14.9% Higher than New Smyrna Beach

Gainesville is 23.1% Higher than Jacksonville

Gainesville is 27.3% Higher than Kissimmee

Gainesville is 38.6% Higher than Orlando

Source: Florida Municipal Electric Association



Governance

- Problem: Gainesville is less competitive than many cities in Florida and in the United States
- Fact: Business representatives and qualified experts do not have formal role in governance decisions
- Recommendation: Create Appointed Utility Authority
- Details: Nine member board; 2/3 Appointed by City Commission; 1/3 Appointed by County Commission; Business Community Representatives and Qualified Experts on the board; Board would possess fiduciary responsibility but not authority to sell GRU



Why Change Governance?

- Rationale: All 5 cities with appointed utility authorities in Florida have electric rates less than in Gainesville
- Appointed Utility Authority (Value Proposition):
 - Expertise
 - Efficiency
 - Modernization
 - More Business...Less Politics
 - Competitiveness

More than 5,000 customers, More Likely to Have Utility Board; GRU had 92,461 customers in FY12

Type of Primary Public Power Governance Structure

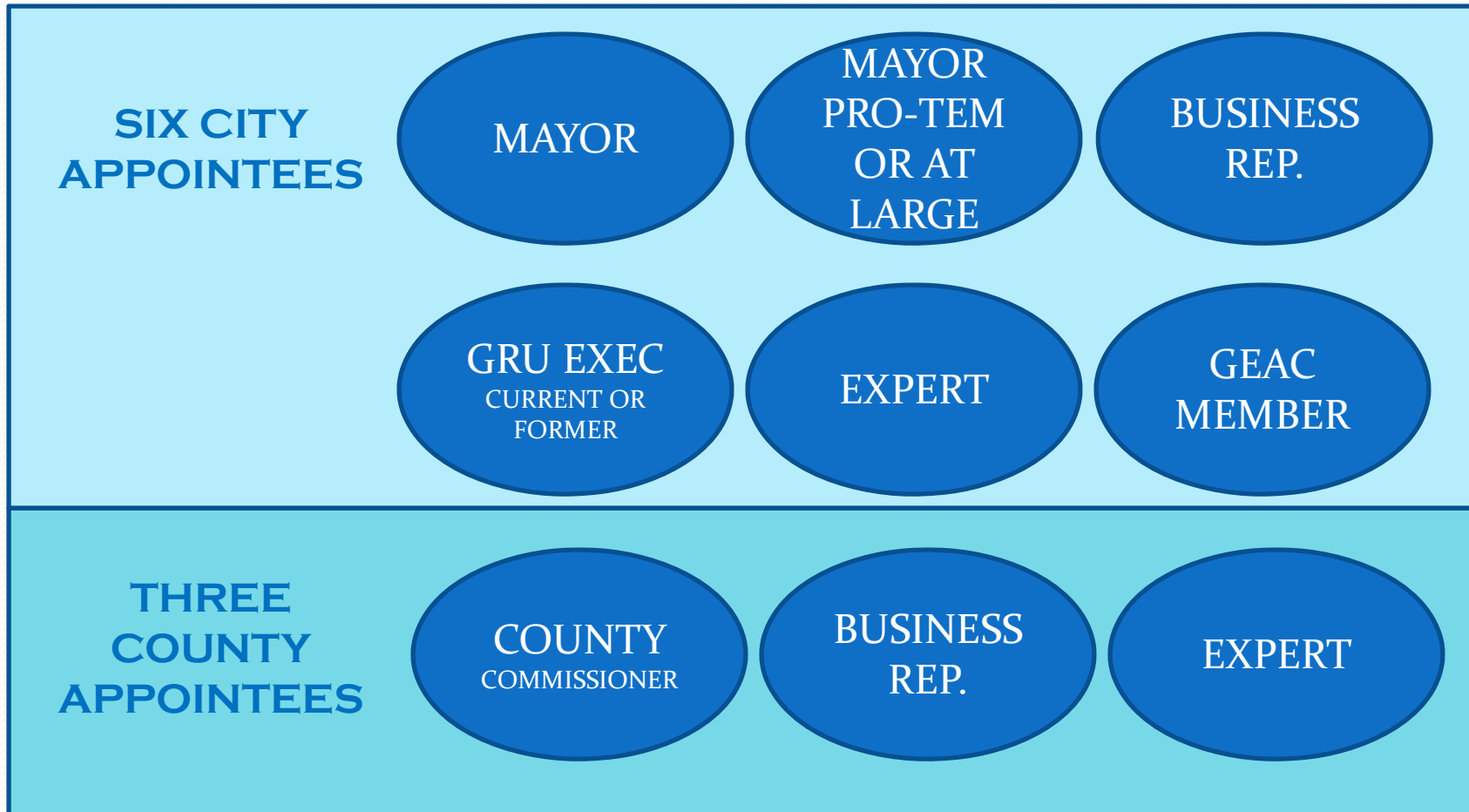
<u>Customer Size Class</u>	<u>Number of Responses</u>	<u>Elected or Appointed Utility Board</u>	<u>City Commission</u>
Greater than 50,000	34	68%	32%
20,000 to 50,000	55	67%	33%
5,000 to 20,000	161	60%	40%
Less than 5,000	408	28%	72%
TOTAL	658	41%	59%

Source: American Public Power Association, “2010 Governance Survey,” August 2010.

Observation: Utilities in larger customer size classes are more likely to have a utility board structure and less likely to have a City Commission structure.

Appointed Utility Authority

PROPOSED STRUCTURE





General Fund Transfer (GFT)

- Problem: Gainesville is less competitive than many cities in Florida and in the United States
- Fact: The GRU GFT rate is the second highest (and more than 150% of the 5.8% median fund transfer rate) of 27 municipally-owned utilities in the United States in the same Fitch “AA-” credit rating category
- Recommendation: Remain Below 6-Year Low of 9%
- Details: FY 2012 rate currently 10.3%; FY 2015 should not exceed 10% and decline by 0.25% each year from FY 2016 – FY 2019 to achieve recommended Target Cap



Why Reduce GFT Rate?

- Rationale: High GFT can create upward pressure on utility rates and make Gainesville less competitive in terms of energy costs
- Reduced GFT (Value Proposition):
 - Reduced GFT should result in reduced utility rates
 - Reduced GFT preferred by credit rating agencies

GRU Had 9.0% GFT Rate in FY08

GRU General Fund Transfer (GFT) History: FY 2007 - FY 2012

<u>Fiscal Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Sales and Service Charges	\$327.7	\$351.2	\$357.6	\$345.9	\$333.4	\$291.7
Total Operating Revenue	\$348.8	\$368.5	\$370.5	\$369.9	\$350.0	\$294.8
General Fund Transfer (GFT)	\$36.0	\$35.2	\$34.3	\$34.5	\$31.5	\$30.4
GFT as a % of Total Op Rev	10.3%	9.6%	9.3%	9.3%	9.0%	10.3%

Source: GRU

(Amounts in Millions of Dollars)



Fuel Adjustment Levelization Fund

- Problem: Gainesville is less competitive than many cities in Florida and in the United States
- Fact: Excess amounts accumulated in GRU Fuel Levelization Fund balance over the past year
- Recommendation: Link Cap to Fuel Budget
- Details: Fund balance must follow the GRU internal management guideline to not exceed 10% of the annual fuel budget; This guideline was stated in the GRU presentation to the City Commission Regional Utilities Committee (RUC) meeting on June 24, 2013