

City of Alachua Wholesale Power Contract Options

Presentation to the
Gainesville City Commission
December 11, 2006



Contract Summary

- Contract Terms
 - Expires December 31, 2007
 - One Year Notice of Termination
 - Automatic 1 Year Renewal without Notice
- Contract Services
 - Full Requirements
 - Planning & Operating Reserves
 - Nuclear Back-up
 - Peak 23.2MW
 - Billed at System Average Fuel Costs

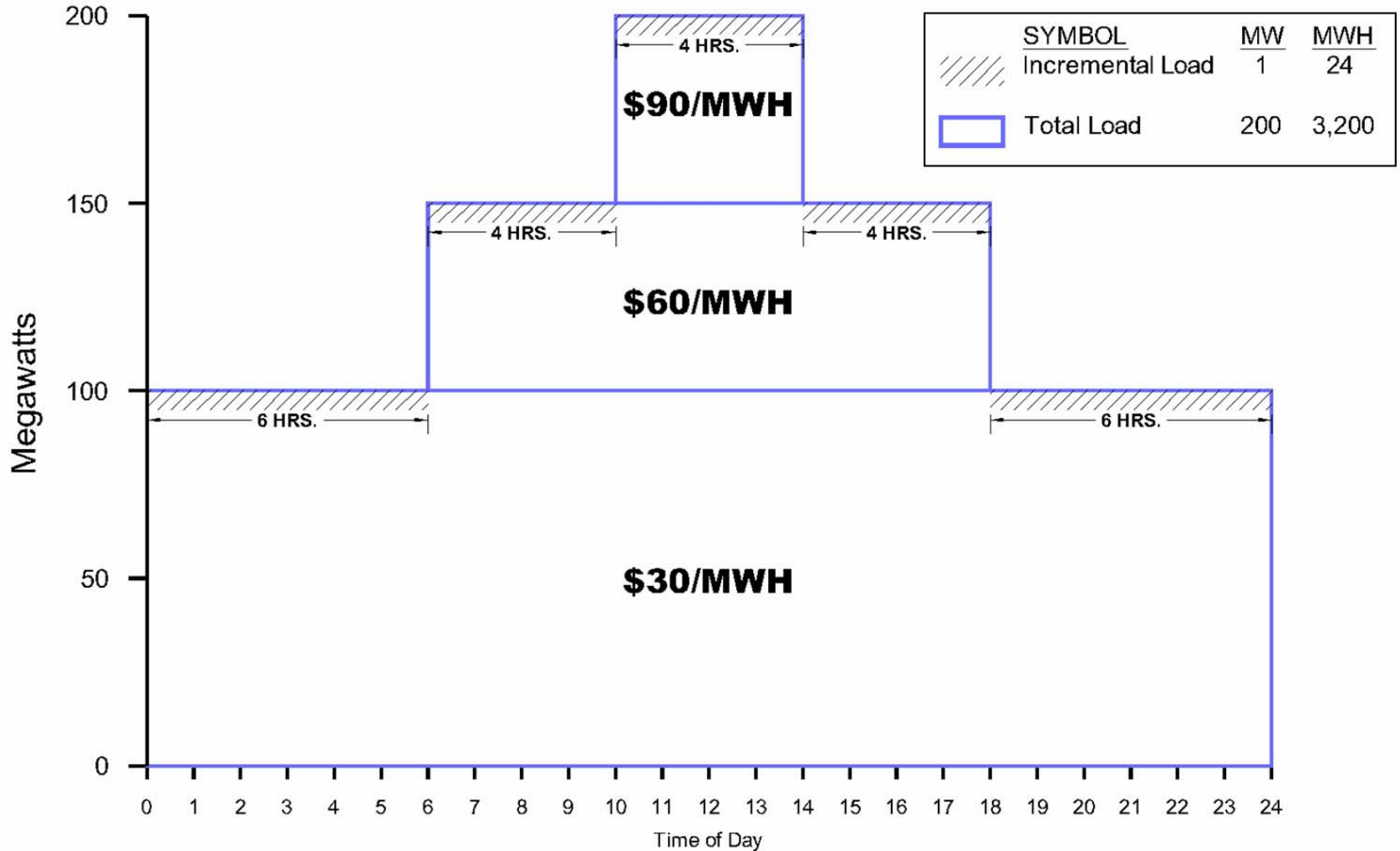
Contract Summary (Continued)

- Implications For Alachua
 - Purchase of Substation Facilities
 - Re-Integration of Hague Delivery Point
 - Acquire New Provider

Considerations For The City Commission

- Is renewing the contract for 1 year in the financial best interest of our customers?
- Will renewing the contract for 1 year affect our long-term energy supply plan?
- Will terminating the contract affect environmental emissions?

Definition Sketch For Average And Incremental Fuel Cost



Average Versus Incremental Cost

Examples

Average Cost Example

Total Generation	3,200 MWH
Total Cost	
\$30 x 24 hrs x 100MW	\$ 72,000
\$60 x 12 hrs x 50MW	\$ 36,000
\$90 x 4 hrs x 50MW	<u>\$ 18,000</u>
	\$126,000
	÷ 3,200 MWH = \$39.38/MWH

Incremental Cost Example

1 MW All Day Long	
Total Generation	24 MWH
Total Cost	
\$30 x 12 hrs	\$ 360
\$60 x 8 hrs	\$ 480
\$90 x 4 hrs	<u>\$ 360</u>
	\$1,200
	÷ 24 MWH = \$50.00/MWH

Incremental Cost Analysis Methodology

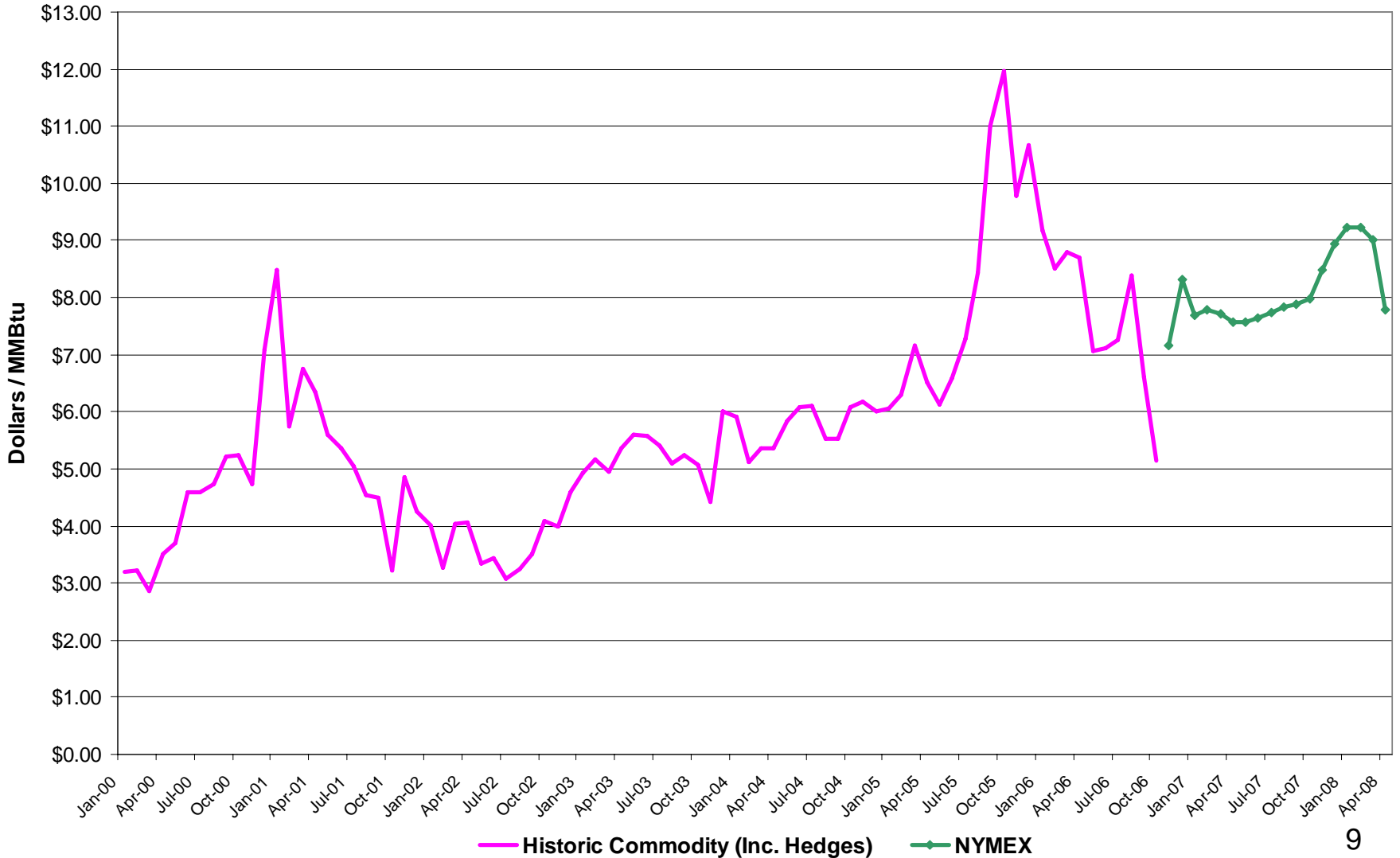
1. Model an entire year's dispatch and fuel cost (8,760 hours)
 - Same software as used for real time dispatch
 - Constrained by:
 - a) Spinning Reserves
 - b) Unit Ramp-rates
 - c) Minimum up & down times
2. Re-dispatch Fleet without Alachua's Hourly Load
 - Obtain new (lower) Production Costs
3. Compute the difference

Financial Performance of the Alachua Contract

ITEM	FY 2005	FY 2006
Total Billing	\$ 6,372,852	\$ 8,029,448
Non-Fuel Revenue	\$ 2,330,415	\$ 2,533,684
Net After Incremental Cost Analysis	\$ 1,134,000	\$ 606,000

Incremental Margins Have Improved

Historic and Current NYMEX Gas Commodity Price (Inclusive of Hedging)



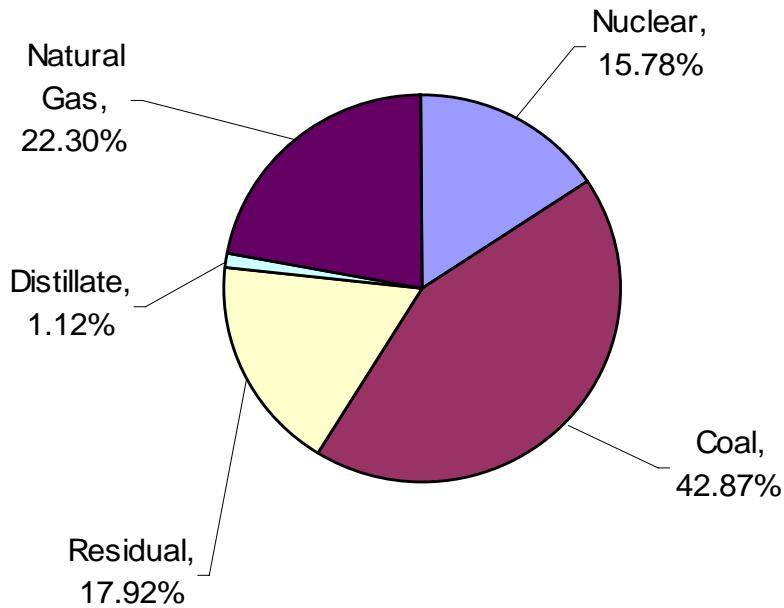
Effects Of Renewing Alachua Contract On Our Energy Supply Plan

- All supply plan studies will be run both with and without wholesale loads
- Serving wholesale loads might be beneficial to entire customer base
 - Economies of scale
 - Keeping profits local
- Extending Alachua through December 31, 2008 will not affect supply plan.

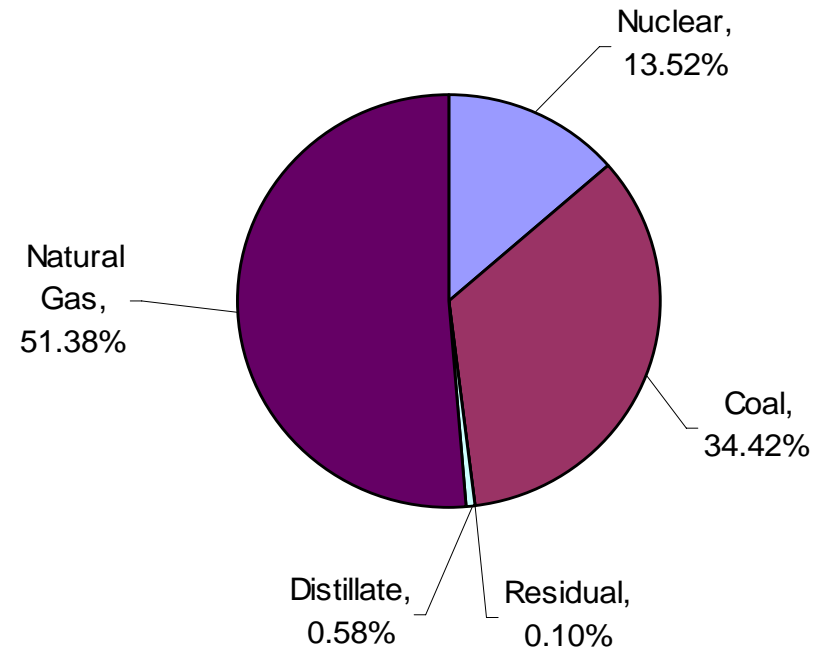
Fuel Mixes For Alternative Suppliers

(2005 Actuals from Ten Year Site Plans)

Progress Energy



FMPA



Recommendation

The City Commission authorize staff to:

- 1) Advise the City of Alachua of its option under the terms and conditions of the existing contract;
- 2) Notify the City of Alachua that the City of Gainesville does not intend to terminate the contract at this time; and
- 3) Continue the referral to the Regional Utilities Committee on Wholesale Sales of Electricity.