

## ATTACHMENT 1 SUMMARY OF TEA OPERATING RESULTS MAY 2000 THROUGH DECEMBER 2001

Gainesville Regional Utilities  
March, 2002

### HISTORY AND BACKGROUND

Gainesville Regional Utilities (GRU) used to buy and sell electrical power through the Florida Energy Broker. Formed in the mid-1970's, The Florida Energy Broker did not base its prices on market value, but operated under a simple algorithm for splitting cost savings from optimized dispatching on an hourly basis. This system worked well under conventional regulation, and GRU handled this function with its own staff through its combined dispatching and operations group. This situation began to change after the National Energy Act of 1992 paved the way to a more competitive wholesale power market. By the mid 1990's most of the energy transactions in Florida were moving away from the Florida Energy Broker methodology and toward bilateral, market based, contracts. Throughout the nation reports of market abuses began to emerge. In response, the Federal Energy Regulatory Commission (FERC) in 1996 issued Orders 888/889 which, among other things, mandated that utilities separate their power marketing and system operations functions.

GRU evaluated options that included setting up its own trading operation or joining a power trading consortium. In 1998, the City Commission authorized GRU to enter into a contract to have these services performed by The Energy Authority (TEA). After evaluating TEA's performance for more than a year staff recommended, and the City Commission approved in May 2000, becoming an equity member of the organization.

### THE ENERGY AUTHORITY

The Energy Authority (TEA) is a partnership between GRU and five other municipalities, including JEA (formerly Jacksonville Electric Authority), Santee Cooper (in South Carolina), the Municipal Electric Authority of Georgia (MEAG), Nebraska Public Power District (NPPD), and City Utilities of Springfield, Missouri (CU). These six utilities own a total of 13,940 mega-watts of generation capacity, with an additional 2,040 mega-watts of capacity owned by resource management partners, for which TEA trades. This is a combined capacity of 15,980 mega-watts. Trading this volume of capacity provides TEA with substantial market insight and benefits the members and resource partners with better price discovery and sales opportunities.

GRU's equity ownership capital investment was \$1,000,000 plus a membership fee of \$867,360. As a requirement of being a member, the City Commission has approved an Advance Agreement with TEA (credit guarantee), whereby GRU has guaranteed maximum electric trading payments of \$9,643,000. Of this total credit guarantee amount only \$429,000 was cash funding. In essence an escrow account, this cash earns interest and secures a Bank Letter of Credit for trading purposes.

TEA is a sophisticated around the clock operation. TEA's operations include a trading floor that is in continuous contact with utilities throughout the USA, discovering market prices, comparing them to each members production costs, and entering into transactions favorable to its members. TEA's operations also include the management and execution of financial contracts to buy and sell options and futures, not only for electricity, but for fuels as well. TEA also manages credit, accounting, risk exposure (to counter-party failure to pay and market fluctuations) and transmission capacity acquisition and scheduling. TEA also handles natural gas purchasing and pipeline entitlements for JEA, Santee Cooper, MEAG, and NPPD. TEA is in the process of preparing to take over these functions for GRU in May 2002 and for CU in October 2002.

## OPERATING RESULTS

Staff has assembled a summary of TEA operating results to update the City Commission on the value of GRU's investment in this organization. GRU's long-term power contracts with FMPA and Alachua were not included in the analysis. In summary, the quantifiable benefits that TEA has obtained for GRU over the twenty-(20) month period between May 2000 through December 2001 are as follows:

Production Cost Savings	\$6,665,388
Net Revenues from Spot Sales	<u>\$1,820,958</u>
Total Benefit	\$8,486,346

GRU's share of TEA's operating expenses are moderated by the economies of scale from sharing costs among members, revenues from resource management partners, and the limited trading activity that TEA engages in to the benefit of all members. Resource management partners are utilities for which TEA provides services on a fee basis. Prior to May 2000, GRU was a resource management partner. Over the study period, GRU's resulting share of TEA's operating cost amounted to \$575,424. This results in an annual benefit to cost ratio of 14.7:1, and a very short payback on GRU's initial investment.

## DISCUSSION AND ALTERNATIVES

This 14.7:1 benefit to cost ratio is quite good and represents a phenomenal rate of return for GRU's investment. It is also worthwhile to review how these benefits compare to other alternatives available to GRU for obtaining the services provided by TEA.

One alternative would be for GRU to do it alone. The cost to provide a 24 hour per day trading operation, with all the credit concerns and back office functions necessitated by the current wholesale power market, is estimated to be no less than \$44,000 per month for salaries and overheads alone (7 FTE), just to cover basic marketing functions without the level of credit assurance and financial trading services TEA makes available to GRU. Over a 20-month period this would be \$880,000, substantially more than GRU's actual cost with TEA. It is also very reasonable to assume that TEA gets better prices than GRU could hope to secure on its own.

Another alternative would be to join another consortium. There are currently no other municipal, facility based, power marketing organizations in the United States with which GRU could become an equity owner. There are other entities that could provide services similar to TEA, but without the operation expense reduction benefits available to us through equity participation in TEA.

## ASSUMPTION OF GAS PURCHASING

We are working with TEA to assume GRU's natural gas purchasing on May 1, 2002. As a result, GRU will be required to establish a guaranty of payment for gas purchases. Currently, GRU's credit guarantee is sized only for the power that is bought and sold outside of the Gainesville service area. Credit requirements for natural gas purchasing must cover 100% of GRU's purchases for the gas distribution system as well as gas for electrical generation. The guarantee requirements were not final at the time of this review but will be brought to the City Commission on March 25, 2002.

