



MEMORANDUM

Office of the City Attorney

Phone: 334-5011/Fax 334-2229
Box 46

TO: Mayor and City Commissioners

DATE: March 2, 2013

FROM: Nicolle M. Shalley, City Attorney

SUBJECT: Retail Fuel Adjustment and Levelization Fund

Background

At the September 20, 2012 City Commission meeting, Commissioner Bottcher expressed concern with citizen accusations of illegality of the retail fuel adjustment and the levelization fund balance and requested that staff provide a response. The City Commission took no formal action on the request; however, the General Manager for Utilities stated he would confer with this Office on the matter. The General Manager for Utilities and this Office determined it appropriate to prepare this informational memorandum to provide an overview of the issues (both legal and factual) related to this matter.

This memorandum provides an overview of industry practices with respect to electric utility rate making, explains the City's rate making authority, outlines the City's past practices in applying, collecting and expending fuel adjustment funds and makes recommendations. This Office researched the legal issues and publicly available sources of information concerning general electric utility practices and citations to relevant materials are included in footnotes. This Office relied on the knowledge of GRU staff, and did not conduct independent research, concerning the City's past practices in calculating, collecting and expending fuel adjustment and levelization funds.

Short Summary

The City Charter vests the City with the authority to set rates for its utility and vests the General Manager for Utilities with the authority to manage and control the operating and financial affairs of the utility. The City Commission sets utility rates by City ordinance. The utility is allowed to recover its costs; however, the rates charged must be fair, just and reasonable, keeping in mind both the needs of the utility (to provide safe, reliable service) and the needs of the rate-payers (to have reasonably sufficient, adequate and reliable service.) The Florida Public Service Commission ("PSC") does not have jurisdiction over the City's rate setting. If the rates are not fair, just or reasonable, Florida courts have recognized that ratepayers have direct recourse to the City Commission, as the rate setting authority. City Code provides for the collection of both base rates and fuel adjustment (which includes use of a levelization amount). For years, the City

has utilized a fuel adjustment account in accordance with the Federal Energy Regulatory Commission's ("FERC") uniform accounting standards in order to recover both fuel and purchased power costs and has applied levelization to minimize, or smooth, monthly fluctuations in customer bills. The relevant City Code provisions, adopted in 1960 and 1985, do not appear to have been updated to reflect the City or industry practices. This Office recommends the City Commission seek guidance from the General Manager for Utilities on amendments to update the City Code so that it is reflective of the City's desired rate practices and that the use of industry standard rate tools are more transparent to the public.

Overview of utility rate making

Utilities must recover their costs to continue to operate. Failure to adequately fund a utility may result in the utility being unable to provide sufficient, adequate, and reliable service. Whether the utility is an investor-owned utility,¹ or a municipally owned utility,² the utility must set rates that are fair, just, and reasonable. In setting fair, just, and reasonable rates, the rate-setting body must keep in mind both the needs of the utility (to provide safe, reliable service) and the needs of the rate-payers (to have reasonably sufficient, adequate and reliable service.)³ There are two traditional forms of cost recovery for utilities. Base rates generally provide recovery for those items of cost that do not change frequently, such as capital costs, fixed operation and maintenance costs, and other fixed costs. In addition, base rates provide a fair rate of return on investments in the utility.⁴

In response to drastic coal shortages in World War I, utilities first began using fuel adjustment clauses to recover fuel costs and this practice evolved to allow for cost recovery of other frequently changing costs or direct pass through costs⁵, such as environmental costs, purchased power and capacity costs. Fuel costs have been recovered by electric utilities in the State of Florida since as early as 1925.⁶

Federal law defines these types of cost recovery mechanisms generally as "automatic adjustment clauses".⁷ In practice, utilities refer to these automatic adjustment clauses by a variety of names, such as fuel adjustment charge, fuel and purchased power cost recovery clause or power cost adjustment surcharge.⁸ Regardless of how named, the purposes for using automatic adjustment clauses include: (1) protecting the customer from the immediate impact of changes in costs that can be large and volatile, (2) segregating costs that are largely beyond the control of the utility, are not a profit center and cannot be managed efficiently through base rates and rate case proceedings; (3) facilitating recovery of "pre-approved" cost items such as long term power purchases, and (4) preventing regulatory lag (i.e., the length of time between the expenditure of costs and a decision on a rate setting case allowing recovery of such costs.)⁹

In Florida, investor-owned utilities are under the jurisdiction of the PSC with respect to rate setting, including both base rates and fuel and purchased power cost recovery. The PSC allows investor-owned utilities to collect their projected fuel costs and purchased power costs annually

through a mechanism called the fuel and purchased power cost recovery clause. Over the years, the PSC identified, defined, and clarified the appropriate types of costs for recovery through the fuel clause. In PSC Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI, the PSC agreed that prudently incurred fossil fuel-related expenses which are subject to volatile changes should be recovered through the fuel clause. Those costs include but are not limited to “the invoice price of fuel,” “transportation charges,” and “payments made to power generators for energy.” As a result, many utilities recover fuel procurement cost (coal, natural gas, oil, and the associated transportation to get the fuel to plant) and purchased power cost through a fuel cost recovery clause. These costs are merely a pass through to the customer and the utility is not allowed to earn a rate of return on fuel and purchased power costs.¹⁰

One of the tools used in connection with fuel and purchased power cost recovery is levelization. Levelization can be effectuated by different practices including a monthly or annual fuel clause, a levelization fund and hedging. Each investor-owned utility under the jurisdiction of the PSC is allowed to project its fuel and purchased power costs for the entire next year and to divide those costs over twelve months. At the end of the year the utility “trues-up” its costs and adds any over or under recovery to its projected costs for the next year. The PSC can conduct a separate prudence review of the costs recovered to determine if the costs incurred were necessary and prudent.¹¹ If the PSC determines costs were imprudently incurred, it can order a refund to customers.¹² As an additional levelizing tool, the PSC requires investor-owned utilities to have a hedging program to help avoid volatile fuel prices.

Municipal utilities also smooth the fuel costs passed through to their customers through use of levelization. For example, Jacksonville Electric Authority’s Fuel Stabilization fund policy has a target fuel fund reserve of 15% of their annual fuel and purchased power costs.¹³

By what legal authority does the City calculate and apply fuel adjustment and levelization?

The PSC has jurisdiction over the rate structure, but not over the rate setting, of municipal utilities.¹⁴ In a dispute between the City of Tallahassee and the PSC¹⁵ over a 15% surcharge added to non-city resident electric bills, the Florida Supreme Court stated:

[w]e agree that the commission does not have jurisdiction over a municipal electric utility’s rates. See *Amerson v. Jacksonville Electric Authority*, 362 So. 2d 433 (Fla. 1st DCA 1978). However, there is a clear distinction between “rates” and “rate structure” though the two concepts are related. “Rates” refers to the dollar amount charged for a particular service or an established amount of consumption. “Rate structure” refers to the classification system used in justifying different rates.

The rates for service supplied by the city’s utility are set by the Tallahassee City Commission. That body is charged with the duty of setting reasonable rates. The Public Service Commission has no authority over those rates. If the rates are unreasonable, the ratepayers have recourse to the city commission.

Likewise, Section 25-9.051(7) of the Florida Administrative Code defines "rate structure" as "the classification system used in justifying different rates and, more specifically, to the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." The same section defines "rate" as the price or charge for utility service.

The amount collected for fuel adjustment cost recovery and levelization are part of the price or charge for utility service (i.e, the rates) and not an issue of rate structure, and therefore the PSC does not appear to have jurisdiction over the City's charges for fuel adjustment and levelization.¹⁶

The City's rate setting authority is provided by City Charter (a Special Act of the Florida Legislature) and by its home rule authority. Section 1.06(7) of the City Charter states the City may "fix the maximum rate and establish, impose, and enforce, by ordinance, the rates to be charged for gas, electric, wastewater, and all other public utilities or other services or conveniences whether operated, rendered, furnished, or owned by the city or by any person, firm, or corporation." Section 3.06 of the City Charter states in pertinent part that the General Manager for Utilities "[s]hall be responsible for and have exclusive management jurisdiction and control over operating and financial affairs of the Utility System including, but not limited to, the planning, development, production, purchase, sale, exchange, interchange, transmission and distribution of all electricity;" "[s]hall submit to the commission for its consideration a yearly budget for the operation of the Utility System;" "[s]hall recommend to the commission all measures necessary and expedient for the proper governance and management of the Utility System;" and "[s]hall keep the commission fully advised as to the management, governance and needs of the Utility System."

As a matter of law, the City is vested with the authority to interpret and carry out its own ordinances. If challenged, municipal ordinances are subject to the same rules of construction as are state statutes.¹⁷ Courts generally may not insert words or phrases in city ordinances in order to express intentions which do not appear, unless it is clear that the omission was inadvertent, and must give to an ordinance the plain and ordinary meaning employed by the legislative body.¹⁸ The law is long standing that a city's interpretation "within the range of possible and reasonable interpretations" should be affirmed.¹⁹ If the ordinance language is ambiguous, the interpretation given the ordinance by the city charged with its enforcement is entitled to great deference and should not be overturned unless it is clearly erroneous or in conflict with the legislative intent of the ordinance.²⁰ Courts are not free to choose an interpretation they conclude is the best public policy, but must defer to the city to make those choices.²¹

The City's electric utility base rates are set by ordinance and codified in Section 27-27 and Appendix A of the City Code. As early as 1960²², the City established a "retail fuel adjustment" as a separate component of its rates. Section 27-28 of the City Code provides the formula for calculating the retail fuel adjustment and states that amount is then "added to the base rate for electric service to all retail customer rate classifications." The stated purposes of the fuel

adjustment are “to allocate to each retail customer classification the appropriate amount of system fuel cost associated with the electric service to such customer classification; to specify the amount of such costs that have resulted from increases in the cost of fuel subsequent to October 1, 1973; and to segregate that portion of charges that are exempt from utility tax and surcharge.”²³ Section 27-28 defines “system fuel costs” as: “the cost of fuel consumed in the city’s generating plants, which may include adjustments to reflect extraordinary fuel related expenses or credits, plus the fuel cost portion of interchange purchases, less the fuel cost portion of interchange sales.”

The fuel adjustment formula set forth in Section 27-28 includes a “levelization amount.” The levelization amount and its related footnote 6 were added to the fuel adjustment formula by City Ordinance No. 3112, adopted February 25, 1985. The Inter-Office Memo to the Mayor and City Commission dated February 18, 1985 that accompanied the draft ordinance expressly states that “[t]he proposed ordinance gives permanent flexibility to the fuel adjustment ordinance and was prepared pursuant to instructions of the City Commission.” Ordinance No. 3112 states that “there may be circumstances where the City Commission of the City of Gainesville (the “City”) shall determine that it is in the public interest to offset fluctuations in the fuel adjustment by application of a levelization amount” and “the City wishes to amend its fuel adjustments ordinance to provide for the application of a levelization amount.” Footnote 6 states “[t]he levelization amount shall be zero unless the city commission shall determine that it is in the public interest to offset fluctuation in the fuel adjustment whereupon the general manager for utilities or his/her designee shall calculate and apply a levelization amount which will achieve the desired objective.”

Section 27-28 does not require a specific process by which the City Commission determines that it is in the public interest to offset fluctuation in the fuel adjustment. It authorizes the General Manager to calculate and apply an amount necessary to achieve the appropriate offset. It allows recovery of the fuel cost portion of interchange purchases or sales, but does not clearly address the other cost components, such as capacity or reservation charges, adders and any transmission or wheeling charges. In addition, it does not define interchange purchases or sales. As used in the industry, the term is generally defined to mean power purchased or sold between interconnected utilities.²⁴

How has the City calculated, collected and expended the fuel adjustment, including the levelization amount?

The City has, for years, recovered its purchased power and fuel costs through the retail fuel adjustment, not through the base rates. Each year, the costs that are projected to be spent for retail fuel and purchased power are presented to and approved by the City Commission during the GRU budget hearings. The budget hearings have not included a separate recommendation, agenda item or specific back-up that states the levelization amount or asks the City Commission to make a special finding that it is in the public interest to apply levelization to offset fluctuation

in the fuel adjustment. For many years, GRU has followed the industry standard FERC Uniform System of Accounts for its accounting and financial reporting practices, which provides for fuel and purchased power cost recovery via a fuel adjustment clause.²⁵ In addition, it has been the practice of GRU to apply levelization, either positive or negative, to offset fluctuation in the fuel adjustment.

At the end of each month, the retail fuel adjustment to be applied to retail bills rendered in the next month is calculated. Using October's fuel adjustment as an example, the calculation is performed late in the month of September. The calculation is based upon projected sales, anticipated outages and fuel costs, including purchased power, for the next month (October in this example) as well as a true-up from the second preceding month (August in this example). The true-up looks at the actual billed sales, retail fuel revenue recorded and costs and compares them to the projections that were used when setting August's fuel adjustment. The differential from August, either over or under collection, is then applied to the next month's (October in this example) fuel adjustment. This results in the unlevelized fuel adjustment for the next month.

For many years, it has been the practice of GRU to calculate and apply a levelization amount. The actual amount (which may be a charge to the customer or it may be a credit to the customer by making a withdrawal from the levelization fund balance) and whether it is fixed on a monthly or annual basis has varied throughout the years, depending upon many factors. If there was a large true-up from the second preceding month (August in the above example), anticipated higher fuel costs projected for the next month or months (October and beyond in the above example), due either to fuel markets, planned outage(s) or other system conditions, the levelization fund balance may be drawn down to lower the costs passed on to customers, reducing volatility and unexpected rate impacts experienced by customers. Conversely, at times of low fuel prices, shorter than planned outages and thus lower purchased power requirements, or higher than anticipated sales, deposits may be made to the levelization fund.

As shown on the graph attached to this memorandum as **Attachment A**, the unlevelized fuel adjustment, levelization applied, as well as the associated levelization balance, has varied greatly over time. For example, the fuel adjustment in April of 2006, prior to levelization funds being applied, was \$102.98 per 1,000 kWh. After applying funds from the levelization account balance, the fuel adjustment charge to customers was lowered to \$50.00 per 1,000 kWh. After a period of expending funds from the levelization fund, the levelization fund balance became negative.

When calculating and applying levelization, GRU staff considers that a levelization fund with a lower, zero or negative balance will result in fuel and purchased power cost obligations and volatility being passed on to the customer at or nearer to the time they occur and in a greater magnitude than if levelized over a longer period of time. As an example, based on historical GRU data, without a levelization fund, a residential utility bill would have increased from \$102.54 to \$148.54 per 1,000kWh from February 2008 to March 2008 based solely on pass-

through costs of purchased power and fuel. Instead, due to use of levelization, the bill was \$118.54 in both months.

The amount collected for fuel adjustment and levelization is disclosed on each GRU electric bill as a line item titled "Electric Fuel Adjustment", followed by the usage (kWh) for the month, the fuel adjustment rate per kWh and the calculated total fuel adjustment. Although such amounts when collected from the customer are considered electric utility system revenue, GRU segregates the funds per FERC accounting standards to be used solely to recover the costs for which collected. GRU does not make a profit on the fuel and purchased power funds. The City Commission receives monthly reports that include the actual fuel adjustment calculations, levelization amount and true-up amounts applied that month. Additionally, the fuel adjustment calculation is audited each month by an independent accounting firm and the firm's audit letter is attached to each month's fuel adjustment submission to the City Commission. An example monthly report and audit letter is included as **Attachment B** to this memorandum. Additionally, the fuel adjustment fund balance and its projected expenditure have also been identified in written bond disclosures and fuel adjustment and levelization were specifically discussed by the City Commission during the public budget hearings in 2012.²⁶

Throughout the years that fuel adjustment funds have been collected by GRU, they have been retained and expended solely for the purposes for which they have been collected. These purposes include paying for fuel used by GRU to generate electricity and paying for power purchased from other power generators (e.g., Solar FIT generators and other contracts for power.) When reviewing the levelization fund balance in early 2012, in connection with the issuance of the 2012 Utilities System Revenue Bonds, GRU staff considered the balance of the fuel levelization fund and using it in order to levelize the increased cost of purchased power, as this would provide greater customer benefit. The nature of this review and this balancing of operations and management considerations were consistent with, and not a departure from, past practice.

The funds collected from GRU customers remain in the fuel adjustment and levelization fund accounts to allow GRU to recover fuel and purchased power costs and to levelize, over time, the rate impacts to customers that result from those costs. The City cannot direct use of these funds for other utility or City expenses, the funds must be expended for the public purposes for which collected, which through City practice has been fuel and purchased power.

Conclusion

GRU has collected, retained and expended fuel adjustment funds, including levelization, for the purposes of paying for fuel and purchased power costs. GRU has not used the funds for other purposes. GRU is allowed to recover these costs, whether it does so through the retail fuel adjustment or through the base rates. GRU has managed the fuel adjustment account in anticipation of maintenance outages, forced outages, fluctuation in market prices and contractual

obligations for purchased power. GRU has utilized levelization to smooth the rate impact to customers over time, as such costs can fluctuate dramatically. GRU's practices over the years in applying, collecting and expending fuel adjustment funds follow industry practices, including FERC accounting standards. This Office recommends the City Commission, with guidance from the General Manager for Utilities, update the City Code so that it is reflective of the City's desired rate practices and that the use of industry standard rate tools are more transparent to the public. Such amendments could recognize that it is generally always in the public interest to apply a levelization amount other than zero, could provide a process and guidelines by which the City Commission or the General Manager for Utilities establishes the levelization amount and on what basis (monthly or annually) and could clarify that the fuel adjustment fund is used for all pass-through fuel and purchased power costs, rather than increasing the base rates.

While the City is not precluded from taking other actions, such as a credit or refund to GRU customers, the General Manager for Utilities would need to provide further guidance (including consultation with the City's outside utility bond firm) on how this could be done without negatively impacting GRU's bond rating or causing other unintended consequences. In addition, such actions, while providing a short term lowering of customer bills, would necessitate increases in the base rates or fuel adjustment when power is purchased and/or market fuel costs are volatile.

¹ 366.041, F.S., which states in pertinent part "in fixing the just, reasonable, and compensatory rates, charges, fares, tolls, or rentals to be observed and charged for service within the state by any and all public utilities under its jurisdiction, the commission is authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service and the value of such service to the public; the ability of the utility to improve such service and facilities; and energy conservation and the efficient use of alternative energy resources; provided that no public utility shall be denied a reasonable rate of return upon its rate base in any order entered pursuant to such proceedings."

² Tallahassee v. Mann, 411 So. 2d 162 (Fla. 1981)

³ 366.03, F.S and 366.041, F.S.

⁴ 366.041, F.S.; Bluefield Waterworks v. PSC of WV, 262 US 679 (1923)

⁵ "Electric Fuel Adjustment Clause Design" dated December 1979, prepared by the National Regulatory Research Institute

⁶ Citizens of the State of Florida v. Florida Public Service Commission, 403 So.2d 1332 (Fla. 1981)

⁷ “Electric Utility Automatic Adjustment Clauses: Benefits and Design Considerations” dated November 2006, prepared by the Edison Electric Institute

⁸ “Electricity Regulation in the US: A Guide” dated March 2011, prepared by the Regulatory Assistance Program

⁹ “Electric Utility Automatic Adjustment Clauses: Benefits and Design Considerations” dated November 2006, prepared by the Edison Electric Institute

¹⁰ Florida PSC News Release dated November 5, 2012

¹¹ Prudence is defined as what a reasonable utility manager would have done in light of conditions and circumstances which were known or reasonably should have been known at the time the decision was made. In other words, the evaluation considers the decisions under the times and conditions they were made. Florida PSC Order No. PSC-97-0608-FOF-EI, issued May 28, 1997 in Docket No. 970001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

¹² Gulf Power Company v. Florida Public Service Commission, 487 So. 2d 1036 (Fla. 1986)

¹³ JEA Electric Tariff Document, approved by the JEA Board and effective on November 22, 2012, Sheet No. 5.0

¹⁴ Storey v. Mayo, 217 So. 2d 304 (Fla. 1968); Amerson v. Jacksonville Elec. Auth., 362 So. 2d 433 (Fla. 1st DCA 1978); Polk County v. Florida Public Service Com., 460 So. 2d 37 (Fla. 1984); and City of Tallahassee v. Mann, 411 So. 2d 162 (Fla. 1981).

¹⁵ City of Tallahassee v. Mann, 411 So. 2d 162, 163 (Fla. 1981)

¹⁶ Despite the seemingly clear legal precedent and PSC treatment of fuel surcharges as a rate setting, not a rate structure, issue, on February 9, 2012, the Bradford County School District filed a complaint with the PSC regarding the current formula used by the City of Starke in calculating the power cost adjustment surcharge and alleged overcharges and requested the PSC take jurisdiction. On January 30, 2013, the PSC staff issued an informal opinion that the PSC does not have jurisdiction over the matter, stating “Under Section 366.04(2), Florida Statutes (F.S.), the Commission’s jurisdiction over municipal utilities is limited to matters involving rate structure, system of accounts, territorial disputes and the efficient operation of the statewide electric grid system. According to Section 25-9.051 (7), F.A.C., rate structure ‘refers to the classification system used in justifying different rates and, more specifically, to the rate relationship between various customer classes, as well as the rate relationship between members of a customer class.’ In this instance, the Bradford County School District alleges the formula used to calculate purchased power costs are erroneous and that the City of Starke has failed to adjust its line loss factors resulting in higher power costs. In other words, the complaint involves the method of calculating the school district’s power bill and does not involve the classification system to justify different rates between different classes of customers. It is staff’s opinion, therefore, that having reviewed the documents in Docket No. 120053-EM, the Commission

would not have jurisdiction over any matter raised in this complaint.” On February 5, 2013, the School Board withdrew its complaint.

¹⁷ Rinker Materials Corp. v. City of North Miami, 286 So.2d 552 (FL 1973)

¹⁸ Florida Dept. of Educ. V. Cooper, 858 So. 2d 394, 396 (Fla. 1st DCA 2003)

¹⁹ Id.

²⁰ Mayo Clinic Jacksonville v. Dept. of Professional Regulation, Bd. Of Medicine, 625 So.2d 919 (Fla. 1st DCA 1993)

²¹ Florida Dept. of Educ. V. Cooper, 858 So. 2d 394, 396 (Fla. 1st DCA 2003)

²² City Code 1960, Section 28-3.5

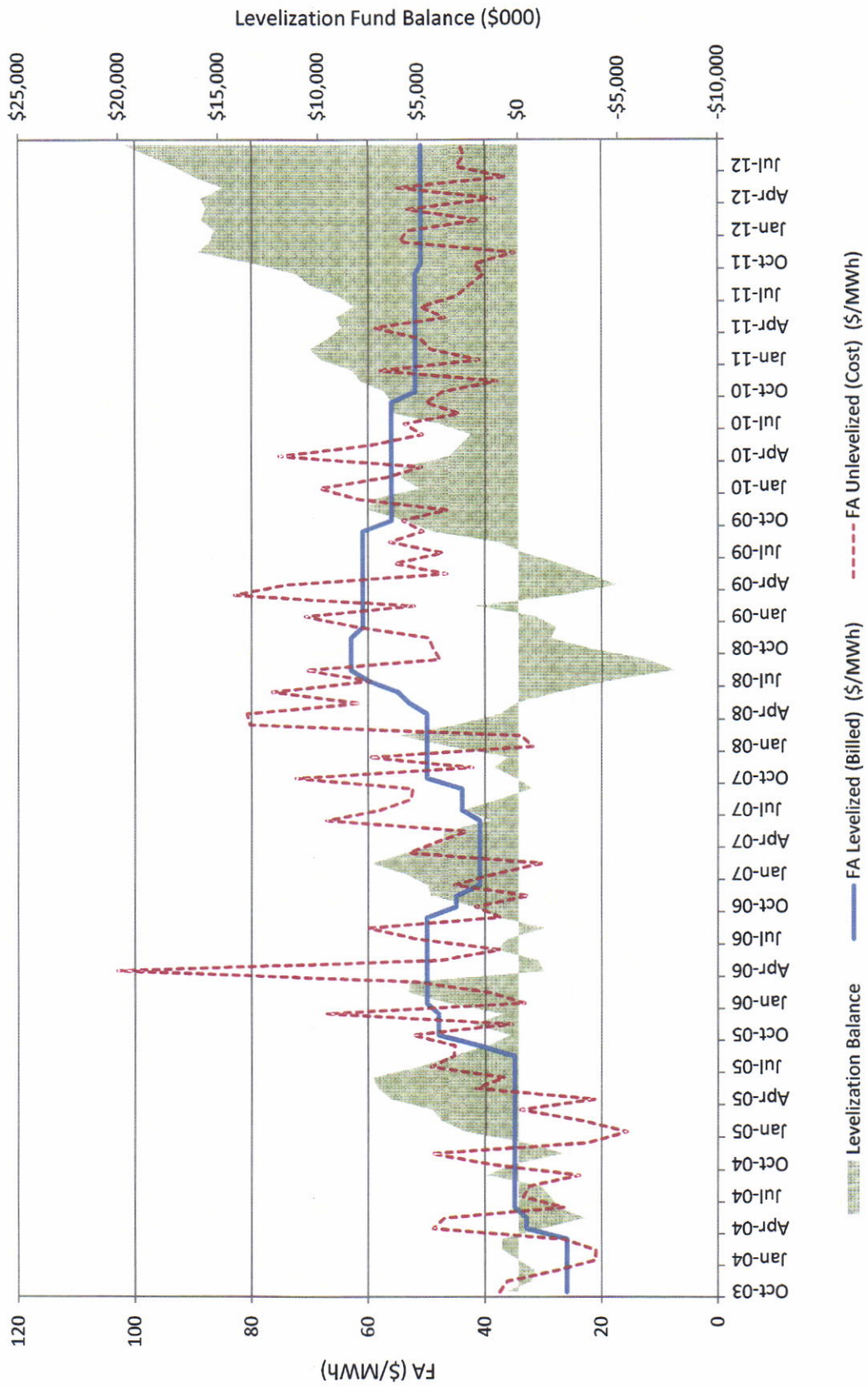
²³ Certain exemptions from taxation are provided by state statute, as an example, Section 166.231, Florida Statutes, which allows municipalities to charge a 10% municipal public service tax on the purchase of electricity; however the statute expressly states “[t]he tax imposed by paragraph (a) shall not be applied against any fuel adjustment charge, and such charge shall be separately stated on each bill. The term “fuel adjustment charge” means all increases in the cost of utility services to the ultimate consumer resulting from an increase in the cost of fuel to the utility subsequent to October 1, 1973.”

²⁴ <http://www.iepa.com/Glossary.asp>

²⁵ 18 C.F.R. § 35.14 (2007); Treatment of Purchased Power in the Fuel Cost Adjustment Clause for Electric Utilities, Order No. 352, FERC Stats. & Regs. ¶ 30,525 (1983), reh’g denied, Order No. 352-A, 26 FERC ¶ 61,266 (1984) (Order No. 352).

²⁶ During the GRU budget presentation at the July 11, 2012, City Commission Meeting a lengthy discussion occurred on the fuel levelization fund between City Commissioners and GRU Staff. One Commissioner made a friendly amendment to the motion on the floor requested that GRU return \$8 million to customers from the fuel levelization fund balance. However, the maker of the motion declined to accept the friendly amendment. No further motions on this issue resulted during this meeting. The GRU budget was approved by the City Commission. During the June 21, 2012, City Commission meeting regarding the 2012 Utilities System Revenue Bonds transaction, a draft of the Preliminary Official Statement (POS) was made available to each Commissioner for review and approval for the proposed bond transaction. The POS contained a plan of finance which indicated that GRU assumed that the balance in the fuel levelization fund would be drawn down during fiscal years 2014-2016. This plan of finance was also provided or made available to all three rating agencies, the underwriters, and all potential investors of the 2012 Utilities System Revenue Bonds transaction. The bond transaction was approved by the City Commission.

Levelized and Unlevelized Fuel Adjustment
 With Levelization Fund Balance
 October 2003 - September 2012 Actuals





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Independent Accountants' Report

To the Honorable City Commissioners
City of Gainesville, Florida

We have examined the accompanying "True-Up" correction factor for the month of September 2012, as defined by Utilities Section 27-28 of the Gainesville Code of Ordinances, as amended, included as Item 5(e) in the City of Gainesville Regional Utilities, Calculation of the Monthly Retail Electric Fuel Adjustment for the November 2012 Billing Cycle (the True-Up). We have also examined the mathematical accuracy of the accompanying Calculation of Retail Fuel Adjustment included as Item 6(b). These calculations are the responsibility of the City's management. Our responsibility is to express an opinion on the calculations based upon our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the calculations and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Items 1 through 3 in the True-Up represent projections of fuel costs and power consumption. We have not examined the information included in Items 1 through 3 in the True-Up, nor the assumptions used in determining the projected data, and, accordingly, do not express an opinion or any other form of assurance on these items.

In our opinion, the accompanying True-Up for the month of September 2012, of (\$426,823) for the November 2012 billing cycle is fairly stated, in all material respects, based on Utilities Section 27-28 of the Gainesville Code of Ordinances. Also, in our opinion, the calculation of the Retail Fuel Adjustment of 51.00 mills/kwh for the November 2012 billing cycle is mathematically accurate.

This report is intended solely for the information and use of the City Commissioners and management of the City of Gainesville and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC

December 27, 2012
Gainesville, Florida



INTER-OFFICE COMMUNICATIONS
FINANCE – RATES & FORECASTING

TO: The Honorable Mayor and
Members of the City Commission

DATE: January 7, 2013

FROM: Jennifer Hunt
Chief Financial Officer, GRU

SUBJECT: November 2012 Fuel Adjustment

Staff has estimated the fuel adjustment rate for the month of November 2012 to be 51.00 mills per kilowatt hour (5.1 cents/kWh). The effects of the fuel adjustment on a 1,000 kWh residential customer's bill are shown below along with the comparative information for October 2012.

	To Be Billed <u>Nov-2012</u>	Billed <u>Oct-2012</u>	Increase/ <u>(Decrease)</u>
Customer Charge	\$ 8.67	\$ 8.67	\$ 0.00
Energy Charge	\$ 68.00	\$ 68.00	\$ 0.00
Fuel Adjustment	\$ 51.00	\$ 51.00	\$ 0.00
Total Electric Charge *	\$ 127.67	\$ 127.67	\$ 0.00

*Excludes city tax, county tax, surcharge, or gross receipts recovery

The fuel adjustment is based on staff's estimate of the fuel prices and types of fuel that will be burned to generate electricity for GRU customers during the month of November 2012. The assumptions used and the calculations are shown on the attached documentation.

During the month of September 2012, the fuel adjustment over-collected \$426,823. The over-collection will be returned to the customers through the true-up feature contained in the fuel adjustment formula.

The attached auditor's report from Carr, Riggs & Ingram confirms the true-up portion included in the fuel adjustment and verifies the mathematical computations.

Prepared by:

Scott Schlossman
Lead Analyst - Finance – Rates & Forecasting, GRU

Submitted by:

Jennifer Hunt
Chief Financial Officer, GRU


JH:sns
Cc: Charter Officers

GAINESVILLE REGIONAL UTILITIES

Calculation of the Monthly Retail Electric Fuel Adjustment

Billing for Month of Service: **November-2012**

1. Projected Fuel Cost Attributed to Wholesale and Retail Sales	\$	6,651,456
2. Projected MWH of Retail Sales		132,334 MWH
3. Projected MWH of Wholesale Sales		14,924 MWH
4. Fuel Cost Attributed to Retail Sales	\$	<u>6,031,136</u>
<i>Item 2 X Item 1</i>		
<i>Item 2 + (Item 3 X 0.912 [a])</i>		
5. "True-up" Calculation from Second Month Preceding the Billing Month: September-2012		
a. Retail Fuel Revenue from the second preceding month		
(1) Retail Fuel Adjustment Revenue	\$	8,897,517
(2) Embedded Fuel	\$	<u>1,124,186</u>
<i>6.5 mills X MWH Retail Sales [b]</i>		
(3) Total Retail Fuel Revenue	\$	10,021,703
<i>Item 5a(1) + Item 5a(2)</i>		
b. Net System Fuel Cost for Retail Sales from the second preceding month		
(1) System Fuel Cost	\$	6,839,399
(2) Fuel Portion of Interchange Purchases	\$	2,349,669
(3) Fuel Portion of Interchange Sales	\$	<u>14,972</u>
(4) Net System Fuel Cost	\$	9,174,095
<i>Item 5b(1) + Item 5b(2) - Item 5b(3)</i>		
(5) MWH of Retail Sales		174,502 MWH
(6) MWH of Wholesale Sales		<u>18,062 MWH</u>
(7) Net System Fuel Cost for Retail Sales	\$	8,382,768
<i>Item 5b(4) X Item 5b(5)</i>		
<i>Item 5b(5) + (Item 5b(6) X 0.912 [a])</i>		
c. True-Up from second preceding month	\$	3,020
d. Levelization from second preceding month	\$	<u>1,209,092</u>
e. True-Up for Current Month	\$	<u>(426,823)</u>
<i>Item 5b(7) + Item 5c - Item 5a(3) + Item 5d</i>		
6. Calculation of Retail Fuel Adjustment		
a. Projected Fuel Adjustment Revenue Required		
(1) Projected Fuel Cost	\$	6,031,136
<i>Item 4</i>		
(2) True-Up	\$	(426,823)
<i>Item 5e</i>		
(3) Embedded Fuel	\$	860,168
<i>6.5 mills X Item 2 [b]</i>		
(4) Levelization Amount	\$	<u>2,004,864</u>
(5) Total Fuel Adjustment Revenue Requirement for Retail Sales	\$	<u>6,749,010</u>
<i>Item 6a(1) + Item 6a(2) - Item 6a(3) + Item 6a(4)</i>		
b. Fuel Adjustment for Current Month	\$	<u>51.00</u> mills/KWH
<i>Item 6a(5) / Item 2</i>		


Scott Schlossman, Analyst

[a] Due to estimated differences in delivery losses between retail and wholesale customers, wholesale sales are reduced by a factor of 91.2%
[b] \$0.0065 per kWh was the cost of fuel, imbedded within base rates for retail service, on October 1, 1973