

# Policy Direction on Alternative Budget Scenario For FY16

Item #140680  
April 2, 2015

# Current Method of GREC PPA Cost Recovery via Fuel Adjustment

## GREC PPA Components

FUEL ADJUSTMENT

Base Fuel Charge	\$21.9M	}	\$24.0M	<u>Current Method</u>
Variable O&M	\$2.1M			
★ Non-Fuel Energy	\$41.0M	}	\$65.4M	\$160.3 M
★ Fixed O&M	\$16.8M			
★ Property Taxes	\$7.6M			
<b>Remaining GRU Fuel Components</b>				
Coal, Gas, Purchases	\$70.9M			

## Revenue Required from Retail Base Rates

BASE RATE

Base Revenue	\$112.7M	
★ Under alternative method, these PPA components would be recovered through retail base rate revenues.		\$112.7 M

Non Fuel Energy – Annual debt service and capital improvements  
 Fixed O&M – Annual O&M expenses  
 Property Taxes - Annually not assessed if GRU/City owned

All cost figures based on FY 15 Budget amounts

# Current Method Vs. Alternative Method: GREC PPA Cost Recovery

## GREC PPA Components

Base Fuel Charge	\$21.9M	} \$24.0M
Variable O&M	\$2.1M	



Under alternative method, these PPA components would be recovered through retail base rate revenues.

Non Fuel Energy – Annual debt service and capital improvements  
 Fixed O&M – Annual O&M expenses  
 Property Taxes - Annually not assessed if GRU/City owned

} \$65.4M

All cost figures based on FY 15 Budget amounts

**Current Method:**  
FA

**Alternative Method:**  
Base Rates

$$\$160.3M - \$65.4M = \$94.9M$$

## Remaining GRU Fuel Components

Coal, Gas, Purchases	\$70.9M
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FUEL ADJUSTMENT

BASE RATE

## Revenue Required from Retail Base Rates

Base Revenue	\$112.7M	} \$65.4M
Non-Fuel Energy	\$41.0M	
Fixed O&M	\$16.8M	
Property Taxes	\$7.6M	

$$\$112.7M + \$65.4M = \$178.1M$$

# Estimated Annual Tax Revenue Increase Resulting from GREC Cost Recovery Shift

- Shift Recovery of GREC Fixed Costs Out of FA and Into Base Rates
  - \$112.7M + **\$65.4M** = \$178.1M

	Est. Utility Tax Revenue	Est. Customer Monthly Bill Impact	Est. Surcharge Tax Revenue	Est. Customer Monthly Bill Impact	Est. Total Customer Monthly Bill Impact
Inside City Resident	\$3.9M*	\$3.78	N/A	N/A	\$3.78
Unincorporated Resident	\$1.64M**	\$4.16	\$1.5M***	\$3.78	\$7.94

\* Inside City Utility Tax Revenue accrues to City of Gainesville

\*\* Unincorporated Utility Tax Revenue accrues to Alachua County

\*\*\* Surcharge Revenue accrues to GRU

# Implications of GREC cost recovery shift into base rates

- Results in net increase of taxed amounts on GRU electric bills which are paid by all GRU electric customers.
- General Government (GG) receives additional utility tax revenue from GRU electric customers located inside city.
- Alachua County Government receives additional utility tax revenue from GRU electric customers located in unincorporated area.
- GRU receives additional surcharge revenue from electric customers located in unincorporated area, however would be offset by loss of revenue from City of Alachua wholesale.
- Creates greater difference in total electric bill amounts between unincorporated area GRU customers vs. inside city GRU customers.

# Implications of GREC cost recovery shift into base rates (continued)

- Certain GRU customers would contribute less toward GREC's fixed costs when recovery of those costs are achieved through retail base rates, such as City of Alachua wholesale contract and streetlights.
- Recovery via FA is currently based equally on volumetric usage. Recovery via base rates would impact customers differently depending on usage pattern, customer classification, and rate designs (i.e. residential tiered rates, customer charges, demand charges, etc).
- Any material changes in plant availability from budget that affects GREC fixed costs could result in over/under collected base rate setting that typically gets adjusted only once a year.
- Reducing the GFT by an amount equal to the estimated incremental utility tax increases results in more variability in revenue to General Government since the current GFT is a fixed negotiated amount while utility tax revenues vary with actual sales.
- Increasing taxes and total bill could further erode electric sales as customers get a higher price signal.

# Policy Direction on Alternative Budget Scenario for FY 16

- GRU and General Government (GG) seek policy guidance on development of alternative budget scenario for recovering GREC fixed costs via retail base rates since the shift results in additional utility tax revenue generated for GG.
- If proceed with developing alternative FY 16 Budget scenario for GREC fixed cost recovery, will the increased utility tax revenues to GG be used to:
  - 1) Reduce other GG revenue obligations (millage rate, storm water, business tax, etc.)
  - 2) Directly offset the GFT
  - 3) Other as directed by City Commission