A GAINESVILLE SOLUTION

THE ENERGY COMPETITIVENESS REPORT

NOVEMBER 2013

Gainesville Area Chamber of Commerce
Council for Economic Outreach
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Gainesville Area CHAMBER OF COMMERCE

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November 25, 2013

The Honorable Mayor and Members of the City Commission
City of Gainesville, Florida
200 East University Avenue, Gainesville, Florida 32601

Dear Mayor Braddy and City Commissioners,

Thank you for your leadership. The Gainesville Area Chamber of Commerce and Council for Economic Outreach respectfully submit the attached economic development report entitled, "A Gainesville Solution: The Energy Competitiveness Report."

The Gainesville region is the heart of Florida and is a great place to live, work and play. Gainesville Regional Utilities (GRU) is a vital asset for the City of Gainesville and essential in positioning this region as the global hub of talent, innovation and opportunity.

We can promote local economic growth and prosperity by ensuring businesses and entrepreneurs have a competitive business climate. GRU must grow its customer base to spread out its fixed costs, which could reduce electricity rates. More customers can increase its revenues and the dollar value of its contribution to the City of Gainesville general government fund.

Commercial accounts represented only 11% of electric customers in Fiscal Year (FY) 2013, but represented 57% of projected combined FY 2013 residential and non-residential revenue. The greatest potential for GRU customer and revenue growth lies in increasing commercial accounts. The Chamber and Council can assist by facilitating efforts creating and retaining businesses in Gainesville, as well as recruiting new businesses to Gainesville. However, Gainesville must improve its competitive position.

Policy recommendations in this report are designed to help Gainesville remain a competitive community for sustainable economic development as it relates to overall energy costs. They were developed through a deliberative process involving 35 private

and public meetings over 7+ months in 2013. Under the leadership of N. David Flagg, former Mayor of Gainesville and State Representative, and Dr. David A. Denslow, Jr. retired University of Florida economist, our 12-member Energy Study Group took a deep dive to understand the dynamic environment GRU operates within.

The recommendations were made with the understanding that Gainesville is a unique city with about 58% of property off the tax rolls, GRU is a diversified utility services provider, and the City Commission has directly governed GRU for 100+ years.

Despite these distinguishing characteristics which make Gainesville and GRU special, we must embrace observations of other cities and utilities, and seek to improve. As New York Times Bestselling Author John C. Maxwell observed in The 15 Invaluable Laws of Growth, "It's hard to improve when you have no one but yourself to follow."

There is an opportunity now to strengthen GRU and best position it for future growth and success. We urge the City Commission to consider our policy recommendations and adopt them as soon as possible. Thank you for your commitment to making our community more competitive.

Onward,

Mitch Glaeser
Chairman of the Board of Directors
VP, Business Development
The Emory Group

Tim Giuliani
President & CEO
Gainesville Area Chamber of Commerce
Council for Economic Outreach

EXECUTIVE SUMMARY

The Gainesville Area Chamber of Commerce has four (4) policy recommendations for the City of Gainesville designed to help Gainesville remain a competitively advantaged community for sustainable economic development as it relates to overall energy costs.

The four recommendations involving Gainesville Regional Utilities (GRU) are as follows:

1) Peer Utility Cost Comparison Recommendation: Benchmark to Peer Mean/Average
2) Fuel Adjustment Levelization Fund Recommendation: Link Cap to Fuel Budget
3) General Fund Transfer Recommendation: Remain Below 6-Year Low of 9.0%
4) Governance Recommendation: Create Appointed Utility Authority

Cities in Florida with the appointed utility authority governance structure are more competitive than Gainesville in commercial and industrial customer class electricity costs. Jacksonville, Orlando, Kissimmee, Fort Pierce, and New Smyrna Beach each have an appointed utility authority. Commercial and industrial customer class electricity costs in these cities are significantly lower than in Gainesville.

A utility cost comparison was conducted and compared GRU to municipal and investor-owned utilities (IOUs) inside Florida and in select cities throughout the United States. In the data sets presented, GRU electricity rates for commercial rate class customers ranked among the highest in Florida and GRU average electricity rates for industrial rate class customers ranked among the highest in the United States.

A survey of public power utilities in the United States conducted by the American Public Power Association (APPA) in 2010 revealed that 68% of utilities - with more than 50,000 customers - responding to the survey indicated that they had an elected or appointed utility board. GRU has 92,461 customers and a City Commission governance model.

TABLES

SECTION I
POLICY RECOMMENDATIONS

OVERVIEW

The four policy recommendations in this report are outlined in Table 1.1 below.

Table 1.1: Policy Recommendations

Category	Policy Recommendation
Peer Utility Cost Comparison	Benchmark to Peer Mean/Average
Fuel Adjustment Levelization Fund	Link Cap to Fuel Budget
General Fund Transfer	Remain Below 6-Year Low of 9.0%
Governance	Create Appointed Utility Authority

BACKGROUND

Peer Utility Cost Comparison Recommendation: Benchmark to Peer Mean/Average

GRU retail commercial and industrial electric rate costs in all categories shall be targeted to be the average total retail costs of municipal utilities in Florida and must not exceed one-half of one standard deviation above the mean/average total retail costs of municipal utilities in Florida. There are 33 municipal utilities in Florida and the Florida Municipal Electric Association – the trade association for Florida municipal utilities – provides total cost information for each municipal utility. The total cost includes the base rate and fuel or cost adjustment.

Fuel Adjustment Levelization Fund Recommendation: Link Cap to Fuel Budget

The GRU Fuel Adjustment Levelization Fund balance must follow the GRU internal management guideline to not exceed 10% of the annual fuel budget. This GRU internal management guideline was stated in the GRU Fuel Adjustment Policy presentation to the Gainesville City Commission Regional Utilities Committee (RUC) meeting on June 24, 2013. This policy presentation was Item #121029. Adhering to the GRU internal guideline to not exceed 10% of the annual fuel budget would prevent excess amounts accumulating in the Fuel Adjustment Levelization Fund, which would be the difference between the target balance of the fund and the current amount of the fund.

General Fund Transfer Recommendation: Remain Below 6-Year Low of 9.0%

GRU transfers an amount of money each Fiscal Year to the City of Gainesville General Fund based on a formula. The General Fund Transfer (GFT) is reported as a percentage of total operating revenue in a given Fiscal Year. The GRU GFT ranged from a low of 9.0% (FY 2008) to a high of 15.1% (FY 1999) between FY 1990 and FY 2012, according to GRU. The mean/average GFT during this 23-year period was 11.4%. The GFT in FY 2012 was 10.3%. Please see Tables 3.4 - 3.7 on page 48 for historical GRU GFT data.

Additional fixed costs for GRU are expected to come online in FY 2014. It is recommended that the GFT not exceed 10.0% in FY 2015 and decline by 0.25% each year for the next four years thereafter (FY 2016 – FY 2019). This multi-year reduction must achieve a “Target Cap” not to exceed the 6-year low of 9.0% or a “Target Cap” not to exceed 150% of the median transfer payment for public utilities in the same GRU Rated Senior Debt credit rating category as indicated in the FitchRatings U.S. Public Power Peer Study for an established baseline year, whichever is lower. A Target Cap must continue beyond FY 2019.

The FitchRatings U.S. Public Power Peer Study dated June 13, 2013 listed GRU and 26 other public utilities in the "AA-" Rated Senior Debt credit rating category. The median transfer payment indicated for this category was 5.8%. A GFT Target Cap calculated as 150% of the 5.8% median would equal 8.7%.

In the FitchRatings report, Tacoma Power in Washington had the highest transfer rate listed at 10.9% and GRU had the second highest transfer rate listed at 10.2% out of the 27 utilities listed in the "AA-" Rated Senior Debt credit rating category for FY 2012.

(Note: The GRU transfer percentage listed at 10.2% in the FitchRatings study is slightly different from the transfer percentage calculated utilizing 2011-2012 GRU annual report data. GRU's total operating revenue was $348.8 million and the transfer payment amount was $36.0 million in FY 2012, which yielded a transfer percentage of 10.3%, according to annual report financial data. This 10.3% calculated from GRU data is 0.1% higher than the 10.2% indicated in the FitchRatings study. End Note).

Governance Recommendation: Create Appointed Utility Authority

Gainesville Regional Utility Authority (GRUA)

Gainesville Regional Utilities should be governed by an appointed utility authority appointed by elected officials called the Gainesville Regional Utility Authority (GRUA). The GRUA Board should have fiduciary responsibility but not the authority to sell GRU.

GRUA Board Structure

The GRUA Board should have nine (9) members appointed by the Gainesville City Commission and Alachua County Board of County Commissioners. The Gainesville City Commission should appoint 2/3 (two-thirds) of the GRUA Board, which would equal six (6) board members. The Alachua County Board of County Commissioners should appoint 1/3 (one-third) of the GRUA Board, which would equal three (3) board members. This ratio represents the current ratio of customers inside and outside the City.

Gainesville City Commission Appointees

The six (6) Gainesville City Commission GRUA Board appointees should be comprised of 2 (two) elected officials and four (4) private (non-elected) citizen members. The two (2) elected officials should be the Mayor of the City of Gainesville and the Mayor-Commissioner Pro-Tem or an At-Large Commissioner. The four (4) private (non-elected) citizen members should be as follows: Business Community Representative; Qualified Expert; Gainesville Energy Advisory Committee (GEAC) Representative; and a Qualified Current or Former Senior GRU Executive. Criteria for selecting and appointing private (non-elected) citizen members are defined below.

Alachua County Board of County Commissioners' Appointees

The three (3) Alachua County Board of County Commissioners' GRUA Board appointees should be comprised of 1 (one) elected official and 2 (two) private (non-elected) citizen members. The elected official should be an Alachua County Commissioner and the private (non-elected) citizen members should be as follows: Business Community Representative and Qualified Expert. Criteria for selecting and appointing private (non-elected) citizen members are defined below.

GRUA Citizen Board Member Appointment Criteria: Business Representative

The Business Community Representatives appointed by the City Commission and Board of County Commissioners must be GRU commercial or industrial retail class customers in the Electric - General Service Demand (50 KW > Demand < 1,000 KW) or Electric - Large Power Service (Demand > 1,000 KW) rate category. The individual representing the business entity may personally reside outside the GRU service area, but the business entity represented by the individual must be a GRU retail electric customer.

GRUA Citizen Board Member Appointment Criteria: Qualified Expert

The city or county appointed Qualified Expert must possess qualifications meeting one of the following minimum standards:

- Past member of the Florida Public Service Commission, or
- At least 15 years of experience working at a managerial level for a publicly, or privately operated utility, or
- At least 15 years of experience working at a managerial level for a supplier of wholesale energy, or
- At least 15 years of experience working at a brokerage house specializing in the trading of energy related commodities, or
- At least 15 years of relevant work experience.

GRUA Citizen Board Member Appointment Criteria: GEAC Representative

The Gainesville Energy Advisory Committee (GEAC) representative appointed by the City Commission shall be either the GEAC chairperson or a non-student GEAC member. While a City of Gainesville Ordinance (080365 – Revision 0-10-05) allows for a GEAC member to hold elected office, the GRUA Board GEAC representative shall not hold an elected position. Should a GEAC member appointed to the GRUA Board seek and obtain an elected office during their term on the GRUA Board, the City Commission shall appoint a new representative from GEAC to finish out the term of the position vacated by the elected GEAC member.

GRUA Citizen Board Member Appointment Criteria: Current/Former GRU Executive

The Qualified Current or Former Senior GRU Executive appointed by the City Commission shall be a current or former member of the GRU executive management team, as defined by GRU's website and organizational structure, or a current or former

GRU senior executive from one of the following GRU enterprise funds: Electric, Water, Wastewater, Gas, and Telecommunications (GRUCom).

Table 1.2: GRUA Board Members: Elected and Private (Non-Elected)

GRUA Board Membership: City and County Appointees	
1) Mayor of Gainesville (City)	6) Current/Former GRU Executive (City)
2) Mayor Pro-Tem or At-Large (City)	7) County Commissioner (County)
3) Business Representative (City)	8) Business Representative (County)
4) Qualified Expert (City)	9) Qualified Expert (County)
5) GEAC Representative (City)	

GRUA Board Chair

The GRUA Board members should elect their own chair. A Qualified Current or Former Senior GRU Executive citizen member that is a current GRU employee should be prohibited from serving as Chair.

GRUA Board Member Terms

GRUA Board members who are elected officials should have their GRUA terms run simultaneously with their respective terms of office. GRUA Board members who are private (non-elected) citizen members should serve for a term of three (3) years except that the initial term for the citizen members should be as follows:
Business Community Representative – One (1) year
Gainesville Energy Advisory Committee (GEAC) Representative – One (1) year
Qualified Current or Former Senior GRU Executive – Two (2) years
Qualified Expert – Three (3) years

GRUA Board Member Term Limits

GRUA Board members who are elected officials should have their GRUA Board term limits be in accordance with applicable ordinances/statutes governing term limits for their particular elected office. GRUA Board members who are private (non-elected) citizen members should not have term limits.

GRUA Board Member Compensation

GRUA Board members should not receive compensation.

GRUA Board Member Conflict of Interest Policy

The GRUA Board should adopt a conflict of interest policy that includes, but is not limited to, clauses addressing financial interest, duty to disclose, recusal of self, determining whether a conflict of interest exists, procedures for addressing the conflict of interest, and violations of the conflict of interest policy. Each GRUA Board member should sign an Annual Conflict of Interest Statement.

GRUA Board Member Removal Policy

A GRUA Board member that is not an elected official should be able to be removed by a simple majority of the elected body that appointed that person to the Board.

GRUA Board Meetings Policy

GRUA Board meetings should be held in public and publicly noticed in compliance with Florida Sunshine statutes.

GRUA Board Rate Setting Policy

The GRUA Board should set utility rates in public meetings.

GRUA Rate Payer Advisory Committee (RAC)

A nine (9) member Rate Payer Advisory Committee should be established to provide non-binding guidance to GRUA. The RAC should have three (3) citizen members from each of the residential, commercial and industrial rate classes of customers. It should have members representing each geographic area of GRU's service territory.

POLICY RECOMMENDATIONS RATIONALE

Peer Utility Cost Comparison Recommendation: Benchmark to Peer Mean/Average

Recommendation

GRU retail commercial and industrial electric rate costs in all categories shall be targeted to be the average total retail costs of municipal utilities in Florida and must not exceed one-half of one standard deviation above the mean/average total retail costs of municipal utilities in Florida. There are 33 municipal utilities in Florida and the Florida Municipal Electric Association – the trade association for Florida municipal utilities – provides total cost information for each municipal utility. The total cost includes the base rate and fuel or cost adjustment.

Rationale

GRU is a municipal utility in Florida and should be compared to municipal utilities in Florida. There are 33 municipal utilities in Florida according to the Florida Municipal Electric Association (FMEA). FMEA compiles cost information on a monthly basis for these utilities. This cost information was utilized to compare commercial and industrial electricity rate costs between GRU and other municipal utilities in Florida.

GRU should also be compared to municipal utilities outside of Florida and to investor-owned utilities (IOUs) inside and outside of Florida. Gainesville competes against cities with municipal utilities and IOUs. These cities have business environments that may be more attractive than Gainesville due to a lower cost of business. The ability to create and retain businesses in Gainesville and recruit businesses to Gainesville can be influenced by the cost of doing business in Gainesville. Utility costs can be a key component of the cost structure of businesses.

The peer utility mean/average cost was selected to compare utility costs as it is a commonly used measure of central tendency – the value most representative of an entire

distribution – in statistical data analysis. An advantage of the mean is that it uses every value in the data set. A disadvantage is that it is influenced by extreme outliers. FMEA utilizes the mean/average cost when illustrating residential electric rate comparisons among municipal utilities in Florida. The U.S. Energy Information Administration (EIA) utilizes the mean/average cost to compare retail electricity rates between utilities throughout the United States.

Standard deviation is the measure of how far data points are dispersed from the mean/average. Approximately 68% of data points lie within one standard deviation of the mean/average. One-half of one standard deviation above the mean/average total costs was selected as the comparison tool as it reflects utility costs closest to the mean/average.

Fuel Adjustment Levelization Fund Recommendation: Link Cap to Fuel Budget

Recommendation and Rationale

The GRU Fuel Adjustment Levelization Fund balance must follow the GRU internal management guideline to not exceed 10% of the annual fuel budget. This GRU internal management guideline was stated in the GRU Fuel Adjustment Policy presentation to the Gainesville City Commission Regional Utilities Committee (RUC) meeting on June 24, 2013. This policy presentation was Item #121029. Adhering to the GRU internal guideline to not exceed 10% of the annual fuel budget would prevent excess amounts accumulating in the Fuel Adjustment Levelization Fund, which would be the difference between the target balance of the fund and the current amount of the fund.

General Fund Transfer Recommendation: Remain Below 6-Year Low of 9.0%

Recommendation

It is recommended that the General Fund Transfer (GFT) not exceed 10.0% in FY 2015 and decline by 0.25% each year for the next four years thereafter (FY 2016 – FY 2019). This multi-year reduction must achieve a "Target Cap" not to exceed the 6-year low of 9.0% or a "Target Cap" not to exceed 150% of the median transfer payment for public utilities in the same GRU Rated Senior Debt credit rating category as indicated in the FitchRatings U.S. Public Power Peer Study for an established baseline year, whichever is lower. A Target Cap must continue beyond FY 2019.

Rationale

To arrive at the recommendation of the Energy Study Group (ESG) regarding the GRU General Fund Transfer (GFT), it is important to look at some historical perspective. A formula-based GFT began in 1987. A core justification for the GFT is that if an Investor Owned Utility (IOU) provided utilities to the City, they would also contribute to the tax base, as do all taxable property owners in the City of Gainesville.

The GFT has been viewed by many as a "return on assets" or the profit of the utility. As an additional benefit, the GFT has supplied revenue to the City from entities otherwise excluded from the tax base. Specifically, looking at data provided by GRU for the 2012 fiscal year, 80% of the revenues for nine (9) of the top 12 accounts (approximately $47 million) were exempt from paying property taxes. These nine tax exempt customers accounted for approximately 13.5% of the total operating revenues for GRU and represented a significant contribution to the GFT.

The GFT provides an effective mechanism to the City of covering costs associated with these tax-exempt entities, and correspondingly, these tax-exempt entities derive benefit from a strong, locally-owned utility.

After carefully studying the General Fund Transfer (GFT), we believe it makes sense to split the GFT into two pieces, fixed and variable. Having a fixed amount ensures that the City can properly plan for funds from its locally-owned utility. The variable amount ensures that the utility is not harmed by transferring too much over periods where the revenues and profitability do not justify a certain level.

The first piece (fixed) would be a guaranteed contribution to the City's General Fund. The second piece (variable) would be formula-based and derived from the revenues, net of transfers to the Rate Stabilization Fund (RSF), of each business unit (electric, gas, water, wastewater, and GRUCom).

The variable component of the transfer would increase or decrease as utility revenues increase or decrease. The first piece (fixed) and second piece (variable) combined would equal a percentage of operating revenue utilized for the transfer that would not exceed the Target Cap noted on page 19.

This approach would allow the City to have a portion of its budget that is predictable and a portion dependent upon utility revenue, better representing the general local economic climate. It must be the goal of the City Commission to reduce the GFT from the FY 2012 10.3% level. The GFT must be reduced to not exceed the Target Cap by FY 2019. The Target Cap must continue beyond FY 2019.

The Chamber believes that the GFT should never be a mechanism that hurts the financial position of the utility in any way. Doing so may have the unintended consequence of increasing costs, such as borrowing, thereby placing both short-term and long-term undue financial burden on the utility. It is the Chamber's belief that as we work to grow our business climate in the Gainesville region, a strong, healthy locally-owned utility that contributes to this growth is beneficial for the entire community.

Governance Recommendation: Create Appointed Utility Authority

Recommendation

Gainesville Regional Utilities should be governed by an appointed utility authority - appointed by elected officials - called the Gainesville Regional Utility Authority (GRUA). The GRUA Board should have fiduciary responsibility but not the authority to sell GRU.

Rationale: Expertise

As one of the largest public utilities in the United States with 92,461 electric customers and projected FY 2014 revenues of nearly $400 million, GRU is a complicated and technical enterprise requiring a board with political, business, financial, and other skills to oversee its management and operations. An appointed utility authority board with elected officials and qualified private (non-elected) citizens could facilitate opportunities for professional expertise to inform deliberations and influence regulatory decisions.

Rationale: Efficiency

An appointed utility authority board with elected officials and qualified private (non-elected) citizens possessing professional expertise and business management experience could provide more robust oversight than a board with only elected officials. More robust oversight could be a bulwark against potential inefficient management in a cost-of-service regulatory model, which is the type of economic regulatory model employed by the Gainesville City Commission to oversee GRU.

In "Do Markets Reduce Costs? Assessing the Impact of Regulatory Restructuring on U.S. Electric Generation Efficiency," © 2004 by Kira Markiewicz, Nancy L. Rose, and Catherine Wolfram, the authors make the following observation:

"Under pure cost-of-service regulation, regulator approved costs are passed directly through to customers, and reductions in the cost of service yield at most short-term

profits until rates are revised to reflect the new lower costs at the next rate case. Given asymmetric information between regulators and firms, inefficient behavior by managers that raises operating costs above minimum cost levels generally would be reflected in increased rates and passed through to customers."

Rationale: Modernization

The City of Gainesville owns and operates GRU and exercises economic regulatory authority over it by determining rates and services. This "City Commission" governance model is less common among large utilities with more than 50,000 customers and more common among small utilities with less than 5,000 customers. GRU had 92,461 electric customers in FY 2012.

In April 2010, the American Public Power Association conducted a "Governance Survey" and 68% of respondents with more than 50,000 customers indicated they are governed by an elected or appointed utility board. In the same survey, 72% of respondents with less than 5,000 customers indicated they are governed by the City Commission.

Table 1.3: Public Power Governance Structure (Utility Board and City Commission)

Customer Size Class	Number of Responses	Elected or Appointed Utility Board	City Commission
Greater than 50,000	34	68%	32%
Less than 5,000	408	28%	72%

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

Rationale: More Business…Less Politics

It could be argued that the biggest strength of the City Commission governance model is that the public utility is only accountable to elected officials, who in-turn, are accountable to the public. However, it could also be argued that the biggest weakness of this model is

that the public utility is only accountable to elected officials, who in-turn, are accountable to the public.

A board with only elected officials could potentially result in oversight decisions being made in the public interest. Low customer rates, reliable service, and reasonable government fund transfers could be the top priorities. However, a board with only elected officials could also result in ideological political considerations dominating oversight decisions. High customer rates, unreliable service, and unreasonable government fund transfers could be the consequences. An appointed utility authority board with elected officials and qualified private (non-elected) citizens could result in business considerations, in concert with the public interest, mitigating - and perhaps overtaking - political considerations out-of-step with sound business judgment.

Rationale: Competitiveness

Cities in Florida with an appointed utility authority governance structure are more competitive than Gainesville in commercial and industrial customer class electricity costs. See Tables 1.4 – 1.7 below. Jacksonville (JEA), Orlando (OUC), Kissimmee (KUA), Fort Pierce (FPUA), and New Smyrna Beach each have an appointed utility authority.

The JEA Board has seven (7) members appointed by the Mayor subject to confirmation by the Council. The OUC Board has five (5) members. The Mayor-Commissioner is an ex-officio member and the Board appoints the other members from a pool of candidates identified by a city nominating committee. The KUA Board consists of six (6) members. The Mayor is a non-voting ex-officio member. The five (5) voting members are nominated by the Board and ratified by the City Commission. The FPUA Board consists of five (5) members. One member is the Mayor-Commissioner and the other four (4) members are appointed by the City Commission. The City Commission appoints members of the New Smyrna Beach Utilities Commission.

Table 1.4: Commercial Electric Rate Comparison - Select Florida Cities (January 2013) Arranged by Price of Non-Demand - 750 KWH Service (Amounts in $)

		Non-Demand - 750 KWH			*Non-Demand - 1,500 KWH*		
	CITY	Base Rate	Fuel or Cost Adjustment	Total	Base Rate	Fuel or Cost Adjustment	Total
1	**GAINESVILLE**	$86.00	$38.25	**$124.25**	$146.00	$76.50	**$222.50**
2	**FORT PIERCE***	98.89	1.50	100.39	191.93	3.00	194.93
3	**KISSIMMEE***	111.80	-20.74	91.06	212.52	-41.48	171.04
4	**ORLANDO***	60.47	30.02	90.49	110.69	60.05	170.74
5	**JACKSONVILLE***	55.55	32.70	88.25	101.85	65.40	167.25
6	**NEW SMYRNA BEACH***	61.92	18.72	80.64	117.80	37.44	155.24

Source: Florida Municipal Electric Association.
* Appointed Utility Authority in Florida.
N.B. Base rate includes customer charge.

In the Non-Demand – 1,500 KWH commercial rate category in January 2013, the total energy cost in Gainesville was higher than in Fort Pierce, Kissimmee, Orlando, Jacksonville, and New Smyrna Beach. Gainesville is at a competitive disadvantage to cities in Florida with an appointed utility authority. Table 1.5 below highlights the percentage by which Gainesville is higher than these cities in this commercial category.

Table 1.5: Gainesville Non-Demand – 1,500 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 14.1% Higher than Fort Pierce
Gainesville is 30.1% Higher than Kissimmee
Gainesville is 30.3% Higher than Orlando
Gainesville is 33.0% Higher than Jacksonville
Gainesville is 43.3% Higher than New Smyrna Beach

Source: Florida Municipal Electric Association

Table 1.6: Commercial Electric Rate Comparison - Select Florida Cities (January 2013)
Arranged by Price of Demand - 150 KW - 30,000 KWH Service (Amounts in $)

		Demand - 150 KW - 30,000 KWH			*Demand - 150 KW - 60,000 KWH*		
	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.

In the Demand – 150 KW-60,000KWH commercial rate category in January 2013, the total energy cost in Gainesville was higher than in Fort Pierce, New Smyrna Beach, Jacksonville, Kissimmee, and Orlando. Gainesville is at a competitive disadvantage to cities in Florida with an appointed utility authority. Table 1.7 below highlights the percentage by which Gainesville is higher than these cities in this commercial category.

Table 1.7: 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

POLICY RECOMMENDATIONS FREQUENTLY ASKED QUESTIONS (FAQs)

General

Q: Why was the Energy Study Group Created?

A: The Gainesville Area Chamber of Commerce created the Energy Study Group to provide guidance on public policy recommendations designed to help us remain a competitively advantaged community for sustainable economic development as it relates to overall energy costs.

Background: The Gainesville Area Chamber of Commerce has placed a stronger emphasis on the public policy component of local business development and regional economic growth. Chamber members identified issues of importance to member businesses. Those issues included transportation, energy, innovation, and water. Energy is a complex and multi-faceted issue.

The Chamber convened a group of local leaders and launched the Energy Study Group (ESG). ESG was charged with developing policy positions designed to help us remain a competitively advantaged community for sustainable economic development as it relates to overall energy costs. Reducing energy costs strengthens the competitive position of Gainesville in creating and retaining businesses and attracting new businesses.

Q: What Problems Are You Trying to Solve with the Energy Study Group?

A: The City of Gainesville must be more competitive and GRU must grow its customer base to spread out its fixed costs, which should reduce electricity rates.

Background: The goal of the ESG was to explore three (3) specific areas of importance – competitiveness, general fund transfer, and governance. The former of the three areas is one that has long been a focus of the Council for Economic Outreach, the arm of the Chamber charged with promoting the creation and retention of businesses in Gainesville and recruiting new businesses to Gainesville. An important factor in these efforts is the cost of doing business and energy costs can be a key component of the cost structure for many businesses. Whether or not a business could be competitive in Gainesville with utility rates higher than that of peer communities can be an important consideration for an existing or prospective business.

General Fund Transfer (GFT)

Q: Why compare GRU GFT to other cities when roughly 58% of the property in Gainesville is off the tax rolls?

A: The value of existing property on the tax rolls is more important than how much property is off the tax rolls. City of Gainesville land use policies must be simplified and designed to facilitate property development which raises property value.

Background: There is property on the tax rolls in the City of Gainesville that would be more valuable to the City if it were developed or redeveloped. Complex land use policies and zoning overlays in the City must be addressed. The City has an opportunity to facilitate property development which raises property value.

A: We must compare the GRU GFT to utilities in other cities as a high GFT can create upward pressure on utility rates and make a city less competitive in terms of energy costs.

Background: The GRU GFT, which has averaged 11.4% over the past 23 years, is an outlier when compared to GFT percentages in utilities throughout the nation. GRUs Fiscal Year 2012 GFT was 10.3%. According to FitchRatings, a well-respected ratings company, the median GFT (government transfer payment as a percentage of operating revenue in Fiscal Year 2012) for 27 utilities in GRU's "AA-" Rated Senior Debt peer category was 5.8%. That puts GRU at more than 150% above the median, which means that rate payers are subsidizing municipal operations. This can result in upward pressure on utility rates and a less competitive landscape for doing business in Gainesville.

Q: Why recommend a General Fund Transfer reduction when the City Commission could respond by increasing property taxes to offset the revenue loss, thereby increasing the burden on property owners in the City?

A: The City Commission must not increase property taxes to offset a reduction in the General Fund Transfer (GFT). Reduced utility rates must result from a GFT reduction, which would make Gainesville more attractive to commercial and industrial energy users and improve its competitive position. More businesses in Gainesville would mean more energy users and more revenue for GRU, which in-turn would mean more financial resources available to contribute to the City's general fund through the GFT.

Governance

Q: Why Create an Appointed Utility Authority?

A: Competitiveness: The five appointed utility authorities in Florida have total commercial and industrial electricity costs less than GRU, which is under a City Commission governance model.

Background: The five appointed utility authorities in Florida are in Jacksonville, Orlando, Kissimmee, Fort Pierce and New Smyrna Beach. In the Demand – 150 KW - 60,000 KWH commercial rate category in January 2013, the total energy cost in Gainesville was 10.1% higher than in Fort Pierce, 14.9% higher than in New Smyrna Beach, 23.1% higher than in Jacksonville, 27.3% higher than in Kissimmee, and 38.6% higher than in Orlando. Gainesville is less competitive than cities in Florida with an appointed utility authority.

A: Modernization: As municipal utilities in the United States grow beyond 50,000 customers (GRU had 92,461 electric customers in Fiscal Year 2012), it is common for governance of the utility to transfer from an elected City Commission to an appointed or elected utility board.

Background: According to the April 2010 American Public Power Association (APPA) "Governance Survey," 68% of utilities with more than 50,000 customers responding to the survey indicated that they have an elected or appointed utility board. An appointed utility board is a natural evolution in the growth of a municipal utility. The utility could remain owned by the municipality but enjoy the benefit of having private (non-elected) citizens with professional expertise and experience shape utility governance decisions.

A: More Business…Less Politics: Third party research stated that one of the largest municipally-owned utilities in the United States could operate more efficiently and flexibly with a governance structure more separated from day-to-day politics.

Background: RAND issued a report in 2001 entitled, "Governance in a Changing Market: The Los Angeles Department of Water and Power." The report indicated that a governance structure more separated from day-to-day politics would be better for the

operations of the Los Angeles Department of Water and Power, the then-largest municipal utility in the United States with 1.4 million business and residential customers.

The Chamber proposes a nine (9) member board for GRU, which would place elected officials and private (non-elected) citizens that are business community representatives, qualified experts, current/former members of GRU, and subject matter experts in energy, in the position of governance over the utility. This structure could result in more business considerations and less political considerations in utility governance decisions.

Q: Why Create Another Layer of Bureaucracy with an Appointed Utility Authority?

A: GRU is a vital asset for the City of Gainesville given that the General Fund Transfer provides approximately one-third of the revenue for the City. The City should invest the administrative, human and financial resources necessary to ensure that this pillar of support for essential City services has the most efficient and flexible governance structure. Such an investment will pay dividends in the future.

Peer Utility Cost Comparison

Q: Why compare GRU to utilities to cities outside of Florida when utility markets can be different from state-to-state?

A: The Council for Economic Outreach – based at the Gainesville Area Chamber of Commerce - is the official economic development organization for Alachua County. It actively markets the assets of Gainesville and its surrounding region to the national business community. Although utility markets can differ from state to state, the overall competitiveness of a city/region in terms of the cost of doing business is a key consideration for many businesses facing expansion or relocation decisions.

SECTION II

PEER UTILITY COST COMPARISON

GRU is compared to municipal and investor-owned utilities (IOUs) inside Florida and in select cities throughout the United States.

Tables 2.1 and 2.2 provide commercial electric rate comparisons for GRU and the other 32 municipal utilities in Florida in January 2013. The comparison is based on total electric rate cost, which is comprised of the base rate (including customer charge) and fuel or cost adjustment. The tables were compiled utilizing data from the Florida Municipal Electric Association (FMEA).

Table 2.3 provides 2011 industrial rate comparisons for GRU and select cities/regions in the United States where Gainesville competes with on an economic development basis. It also includes rate comparisons for investor-owned utilities (IOUs) in Florida. The vast majority of cities were selected based on internal research from the Council for Economic Outreach and information from GRU. Data from 2011 was the most recent data available.

The Table 2.3 cost comparison is based on average retail rates reported as cents/KWH. Average retail rates are calculated by dividing the total revenue earned from the rate class by the total number of kilowatt hours (KWH) sold to that rate class during a given year. In the "City/State" column, "Florida" is listed for some investor-owned and cooperative utility entities as their geographical area may encompass more than one municipality. Table 2.3 was compiled utilizing data from the U.S. Energy Information Administration (EIA).

In the data sets presented, GRU electricity rates for commercial rate class customers ranked among the highest in Florida and GRU electricity rates for industrial rate class customers ranked among the highest in the United States.

Table 2.1: Commercial Electric Rate Comparison - Florida Municipal Utilities (January 2013) Arranged by Price of Non-Demand - 750 KWH Service (Amounts in $)

		Non-Demand - 750 KWH			*Non-Demand - 1,500 KWH*		
	CITY	Base Rate	Fuel or Cost Adjustment	Total	Base Rate	Fuel or Cost Adjustment	Total
1	**GAINESVILLE**	$86.00	$38.25	**$124.25**	$146.00	$76.50	**$222.50**
2	BARTOW	53.75	67.50	121.25	99.50	135.00	234.50
3	FORT MEADE	85.23	35.25	120.48	153.18	70.50	223.68
4	KEY WEST	121.99	-7.95	114.04	215.66	-15.90	199.76
5	CHATTAHOOCHEE	83.33	30.25	113.58	159.15	60.50	219.65
6	STARKE	76.50	33.75	110.25	144.00	67.50	211.50
7	BUSHNELL	85.30	23.25	108.55	163.19	46.50	209.69
8	WILLISTON	79.04	26.25	105.29	143.07	52.50	195.57
9	NEWBERRY	90.15	15.00	105.15	172.80	30.00	202.80
10	VERO BEACH	49.03	55.50	104.53	88.63	111.00	199.63
11	HOMESTEAD	67.42	36.71	104.13	127.19	73.43	200.62
12	WAUCHULA	85.10	18.00	103.10	143.60	36.00	179.60
13	CLEWISTON	89.33	11.81	101.14	164.85	23.63	188.48
14	LEESBURG	81.26	19.88	101.13	151.31	39.75	191.06
15	**FORT PIERCE***	98.89	1.50	**100.39**	191.93	3.00	**194.93**
16	BLOUNTSTOWN	99.84	0.00	99.84	199.68	0.00	199.68
17	QUINCY	78.83	19.42	98.25	137.05	38.85	175.90
18	ALACHUA	84.25	13.31	97.56	157.00	26.63	183.63
19	JACKSONVILLE BEACH	62.68	33.63	96.31	119.36	67.26	186.62
20	HAVANA	68.63	26.21	94.84	131.25	52.41	183.66
21	MOORE HAVEN	74.43	20.33	94.76	140.35	40.65	181.00
22	MOUNT DORA	37.67	56.48	94.14	66.72	112.95	179.67
23	ST. CLOUD	62.89	31.22	94.11	115.12	62.45	177.57
24	OCALA	75.32	18.75	94.07	138.42	37.50	175.92
25	LAKE WORTH	100.88	-7.50	93.38	201.75	-15.00	186.75
26	**KISSIMMEE***	111.80	-20.74	**91.06**	212.52	-41.48	**171.04**
27	**ORLANDO***	60.47	30.02	**90.49**	110.69	60.05	**170.74**
28	WINTER PARK	61.48	28.63	90.11	110.62	57.28	167.90
29	**JACKSONVILLE***	55.55	32.70	**88.25**	101.85	65.40	**167.25**
30	GREEN COVE SPRINGS	74.25	13.13	87.38	142.50	26.25	168.75
31	LAKELAND	51.63	31.69	83.32	93.26	63.37	156.63
32	**NEW SMYRNA BEACH***	61.92	18.72	**80.64**	117.80	37.44	**155.24**
33	TALLAHASSEE	42.49	34.75	77.24	76.54	69.50	146.04

Source: Florida Municipal Electric Association.

* Appointed Utility Authority in Florida.

N.B. Base rate includes customer charge.

Mean/Average	$99.49		$188.12
Standard Deviation	11.29		20.76
One-Half of One Standard Deviation Above Mean/Average	**$105.13**		**$198.50**
One Standard Deviation Above Mean/Average	110.77		208.88
GAINESVILLE	**$124.25**		**$222.50**

Table 2.2: Commercial Electric Rate Comparison - Florida Municipal Utilities (January 2013)
Arranged by Price of Demand - 150 KW - 30,000 KWH Service (Amounts in $)

		Demand - 150 KW - 30,000 KWH			*Demand - 150 KW - 60,000 KWH*		
	CITY	Base Rate	Fuel or Cost Adjustment	Total	Base Rate	Fuel or Cost Adjustment	Total
1	CHATTAHOOCHEE	$3,521.73	$1,210.08	$4,731.81	$6,252.78	$2,420.16	$8,672.94
2	BARTOW	1,968.50	2,700.00	4,668.50	2,592.50	5,400.00	7,992.50
3	**GAINESVILLE**	$2,990.10	$1,530.00	**$4,520.10**	$4,342.50	$3,060.00	**$7,402.50**
4	JACKSONVILLE BEACH	3,129.35	1,345.20	4,474.55	4,967.45	2,690.40	7,657.85
5	FORT MEADE	3,063.00	1,410.00	4,473.00	4,671.00	2,820.00	7,491.00
6	LAKE WORTH	4,753.00	-300.00	4,453.00	7,306.00	-600.00	6,706.00
7	BUSHNELL	3,346.70	930.00	4,276.70	5,553.20	1,860.00	7,413.20
8	KEY WEST	4,504.27	-318.00	4,186.27	7,633.27	-636.00	6,997.27
9	HOMESTEAD	2,704.17	1,468.50	4,172.67	4,417.17	2,937.00	7,354.17
10	NEWBERRY	3,549.00	600.00	4,149.00	5,583.00	1,200.00	6,783.00
11	STARKE	2,709.00	1,350.00	4,059.00	5,409.00	2,700.00	8,109.00
12	BLOUNTSTOWN	3,993.60	0.00	3,993.60	7,987.20	0.00	7,987.20
13	VERO BEACH	1,706.30	2,220.00	3,926.20	2,705.30	4,440.00	7,145.30
14	**FORT PIERCE***	3,828.60	60.00	**3,888.60**	6,602.40	120.00	**6,722.40**
15	LEESBURG	2,963.86	795.00	3,758.86	4,277.89	1,590.00	5,867.89
16	**NEW SMYRNA BEACH***	2,996.00	748.80	**3,744.80**	4,946.00	1,497.60	**6,443.60**
17	ALACHUA	3,202.50	532.50	3,735.00	5,272.50	1,065.00	6,337.50
18	**JACKSONVILLE***	2,370.10	1,308.00	**3,678.10**	3,395.20	2,616.00	**6,011.20**
19	MOORE HAVEN	2,840.00	813.00	3,653.00	4,289.00	1,626.00	5,915.00
20	**KISSIMMEE***	4,432.54	-829.50	**3,603.04**	7,476.04	-1,659.00	**5,817.04**
21	GREEN COVE SPRINGS	3,055.00	525.00	3,580.00	4,885.00	1,050.00	5,935.00
22	HAVANA	2,511.00	1,048.20	3,559.20	5,016.00	2,096.40	7,112.40
23	WAUCHULA	2,835.50	720.00	3,555.50	4,785.50	1,440.00	6,225.50
24	TALLAHASSEE	2,148.74	1,389.90	3,538.64	2,681.24	2,779.80	5,461.04
25	OCALA	2,769.75	750.00	3,519.75	4,420.05	1,500.00	5,920.05
26	CLEWISTON	3,032.50	472.50	3,505.00	5,483.50	945.00	6,428.50
27	ST. CLOUD	2,167.50	1,248.90	3,416.40	3,055.80	2,497.80	5,553.60
28	QUINCY	2,033.49	1,377.00	3,410.00	3,406.53	2,154.00	5,560.53
29	**ORLANDO***	2,084.10	1,200.90	**3,285.00**	2,938.20	2,401.80	**5,340.00**
30	MOUNT DORA	887.30	2,259.00	3,146.30	1,048.73	4,518.00	5,566.73
31	LAKELAND	1,760.34	1,267.50	3,027.84	2,440.68	2,535.00	4,975.68
32	WINTER PARK	1,806.22	1,145.40	2,951.62	2,927.62	2,290.80	5,218.42
33	WILLISTON	0.00	0.00	0.00	0.00	0.00	0.00

Source: Florida Municipal Electric Association.

* Appointed Utility Authority in Florida.

N.B. Base rate includes customer charge.

Mean/Average	$3,716.40		$6,367.39
Standard Deviation	814.75		1,485.18
One-Half of One Standard Deviation Above Mean/Average	**$4,123.77**		**$7,109.98**
One Standard Deviation Above Mean/Average	4,531.15		7,852.57
GAINESVILLE	**$4,520.10**		**$7,402.50**

Table 2.3: Industrial Electric Rate Comparison - Select U.S. Cities and Regions (2011) Arranged by Average Retail Price (Cents/KWH)

	City/State	State	Entity	Class of Ownership	Average Retail Price (Cents/KWH)*
1	FLORIDA	FL	Florida Public Utilities Co	Investor Owned	14.14
2	BOSTON	MA	NSTAR Electric Company	Investor Owned	13.77
3	COLUMBUS	OH	City of Columbus	Public	10.47
4	**GAINESVILLE**	**FL**	**Gainesville Regional Utilities**	**Public**	**9.86**
5	KISSIMMEE	FL	Kissimmee Utility Authority	Public	9.68
6	ORLANDO	FL	Orlando Utilities Comm	Public	9.02
7	TAMPA	FL	Tampa Electric Co	Investor Owned	8.94
8	NORTHERN VA	VA	Northern Virginia Elec Coop	Cooperative	8.83
9	FLORIDA	FL	Gulf Power Co	Investor Owned	8.80
10	FLORIDA	FL	Progress Energy Florida Inc	Investor Owned	8.77
11	GREENVILLE	SC	Blue Ridge Electric Coop Inc - (SC)	Cooperative	8.54
12	HATTIESBURG	MS	Pearl River Valley El Pwr Assn	Cooperative	8.28
13	LAKELAND	FL	City of Lakeland	Public	8.27
14	FLORIDA	FL	Clay Electric Cooperative, Inc	Cooperative	8.02
15	GREENVILLE	SC	Laurens Electric Coop, Inc	Cooperative	7.97
16	JACKSONVILLE	FL	JEA	Public	7.73
17	MEMPHIS	TN	City of Memphis - (TN)	Public	7.45
18	FLORIDA	FL	Florida Power & Light Co	Investor Owned	7.39
19	RESEARCH TRIANGLE	NC	Progress Energy Carolinas Inc	Investor Owned	6.62
20	ATLANTA	GA	Georgia Power Co	Investor Owned	6.58
21	SAVANNAH	GA	Georgia Power Co	Investor Owned	6.58
22	BOULDER	CO	Public Service Co of Colorado	Investor Owned	6.54
23	BATON ROUGE	LA	Dixie Electric Membership Corp	Cooperative	6.29
24	NORTHERN VA	VA	Dominion (Virginia Electric/Power)	Investor Owned	6.25
25	BATON ROUGE	LA	Pointe Coupee Elec Member Corp	Cooperative	6.13
26	BIRMINGHAM	AL	Alabama Power Co	Investor Owned	6.03
27	HATTIESBURG	MS	Mississippi Power Co	Investor Owned	6.01
28	AUSTIN	TX	Austin Energy	Public	6.00
29	SEATTLE	WA	City of Seattle - (WA)	Public	5.73
30	BATON ROUGE	LA	Entergy Gulf States - LA LLC	Investor Owned	5.42
31	RESEARCH TRIANGLE	NC	Duke Energy Carolinas, LLC	Investor Owned	5.34
32	GREENVILLE	SC	Duke Energy Carolinas, LLC	Investor Owned	4.81
33	EUGENE	OR	City of Eugene - (OR)	Public	4.13

Source: U.S. Energy Information Administration (EIA).

* Average retail rates are calculated by dividing the total revenue earned from the rate class by the total number of kilowatt hours (KWH) sold to that rate class during a given year.

	Cents/KWH
Mean/Average	7.71
Standard Deviation	2.23
One-Half of One Standard Deviation Above Mean/Average	**8.82**
One Standard Deviation Above Mean/Average	9.94
GAINESVILLE	**9.86**

U.S. PUBLIC POWER

U.S. Public Power Overview

U.S. public power is a collection of more than 2,000 community-owned public power (electric) utilities, serving more than 47 million people or about 14 percent of the nation's electricity consumers. Public power utilities are operated by local governments to provide communities with reliable, responsive, not-for-profit electric service. Public power utilities are directly accountable to the people they serve through local elected or appointed officials.

U.S. Public Power Payments to Governments

In February 2012, the American Public Power Association issued a report on public power distribution system payments and contributions to state and local governments. APPA calculated net payments and contributions for 284 public power systems in the data year of 2010 and determined that the median amount contributed was 5.2 percent of electric operating revenues. When all taxes, tax equivalents and other contributions to state and local government are considered, the median amount contributed by public power systems nationwide in 2010, as a percent of electric operating revenues, was 33 percent higher than investor-owned utilities (5.2 percent vs. 3.9 percent). Median amounts contributed by public power systems range from 3.7 percent to 6.1 percent based on revenue class as indicated in Table 2.4 below.

Table 2.4: Public Utility Net Payments and Contributions as Percent of Electric Operating Revenue, 2010. Public Utilities by Revenue Class.

Revenue (in millions)	Number of Utilities	Median	First Quartile	Third Quartile
$100 million or more	43	6.1%	4.6%	9.8%
$50 - $100 million	30	5.1%	3.5%	6.1%
$20 - $50 million	74	5.2%	2.7%	5.9%
$10 - $20 million	39	4.5%	3.0%	6.9%
$5 - $10 million	43	5.3%	2.7%	8.9%
$2 - $5 million	29	5.0%	3.0%	8.2%
Less than $2 million	26	3.7%	1.2%	9.9%
Total	284	5.2%	3.0%	7.2%

Source: American Public Power Association, "Payments and Contributions by Public Power Distribution Systems to State and Local Governments, 2010 Data," February 2012.

Table 2.5: Methods Used to Calculate Payments in Lieu of Taxes for 199 Public Power Systems

	Percent of Utilities	Number of Utilities
Percent of Gross Electric Operating Revenue	25%	49
Flat Amount Paid Annually	17%	34
Property Tax Equivalent	14%	28
Charge per Kilowatt-hour Sold	12%	24
Assessment of Electric Utility and City Budgets*	11%	22
Percent of Net Utility Plant in Service	5%	9
Percent of Income (Net, Operating or Total)	3%	5
Other**	14%	28
Total	N/A	199

Source: American Public Power Association, "Payments and Contributions by Public Power Distribution Systems to State and Local Governments, 2010 Data," February 2012.

* The category "assessment of electric utility and city budgets" includes utilities whose payments are set by the city council, the mayor, or a utility commission and utilities that make payments on an as needed basis.

** The most common responses in the "other" category are utilities whose payments are based on more than one criterion.

Separately, the APPA report also noted that 199 public power systems made payments in lieu of taxes (also called general fund transfers) and the median transfer as a percent of electric operating revenue for this group was 3.7 percent. The most common method used to determine the amount of payments in lieu of taxes was percent of gross electric operating revenue, as shown in Table 2.5 above.

U.S. Public Power Governance Structures

The American Public Power Association (APPA) concluded its eighth "Governance Survey" in April 2010. Determining the type of control local governments exercise over publicly owned electric systems was the objective of the survey. Surveys were distributed to nearly 1,900 local public owned electric systems in the United States, and 658 completed questionnaires were returned to APPA. The majority of respondents, 59 percent, are governed by a City Commission, while the remaining 41 percent are governed by elected or appointed utility boards. Appointed utility boards are more than twice as common as elected utility boards. Table 2.6 and Table 2.7 below summarize survey respondents by customer size class and by the type of governing body which exercises primary control over the utility.

Table 2.6: Type of Primary Public Power Governance Structure (Elected or Appointed Utility Board and City Commission)

Customer Size Class	Number of Responses	Elected or Appointed Utility Board	City Commission
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.

Table 2.6 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.

Table 2.7: Type of Primary Public Power Governance Structure
(Elected Utility Board, Appointed Utility Board and City Commission)

Customer Size Class	Number of Responses	Elected Utility Board	Appointed Utility Board	City Commission
Greater than 50,000	34	24%	44%	32%
20,000 to 50,000	55	33%	34%	33%
5,000 to 20,000	161	20%	40%	40%
Less than 5,000	408	5%	23%	72%
TOTAL	658	12%	29%	59%

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

Table 2.7 Observation: Utilities in the largest customer size class are more likely to have an appointed utility board than an elected utility board.

FLORIDA PUBLIC POWER

Florida Public Power Overview

There are 33 public power (municipal electric) utilities in Florida and they serve approximately 3 million customers. Municipal electric utilities in Florida, combined, are the third largest electric provider in the state. They serve 14 percent of the customers in Florida while Investor-Owned Utilities serve 76 percent of the customers and electric cooperatives serve 10 percent of the customers, according to the Florida Municipal Electric Association (FMEA).

Table 2.8: Select Municipal Utilities in Florida Based on Total Retail Customers

Rank	Municipal Utility Name	Retail Customers
1	JEA (Formerly known as Jacksonville Electric Authority)*	422,312
2	Orlando Utilities Commission (OUC)	227,893
3	Lakeland Electric Utility (LE)	120,771
4	Tallahassee Electric Fund	108,317
5	Gainesville Regional Utilities (GRU)	92,461
6	Kissimmee Utility Authority (KUA)	64,007
7	Ocala Utility Services (OUS)	50,498

Source: Fitch Ratings, U.S. Public Power Peer Study, June 13, 2013

*JEA Electric System and Bulk Power Supply System

Florida Public Power Governance Structures

There are three basic governance models of Municipal-Owned Utilities (MOUs) in cities in Florida. These are as follows: 1) City Commission governance (27 cities); 2) Appointed Utility Authority governance (5 cities: Jacksonville; Orlando; Kissimmee; New Smyrna Beach; Fort Pierce); and 3) Elected Utility Authority governance (1 city).

SECTION III
GAINESVILLE REGIONAL UTILITIES (GRU)

Gainesville Regional Utilities (GRU) Overview

General Overview

Gainesville Regional Utilities (GRU) is a combined municipal utility system operating in Gainesville, FL and has five enterprise funds: 1) Electric; 2) Water; 3) Wastewater; 4) Gas; and 5) Telecommunications. It is the fifth largest municipal utility in Florida. The GRU General Fund Transfer to the City of Gainesville is based on a pre-defined formula and was $36.0 million for the fiscal year ended September 30, 2012, which represented 10.3% of total combined GRU operating revenues of $348.8 million. GRU has a City Commission governance structure as it is owned and operated by the City of Gainesville. GRU was established in 1912.

Table 3.1: GRU Profile

GRU	Fiscal Year End September 30, 2012
System Type	Retail – Generating LSE Sector
Utility Systems	Electric, Water, Wastewater, Gas, Telecom
Governance Structure	City Commission
Total Combined Operating Revenue	$348.8 Million
General Fund Transfer Payment	$36.0 Million
General Fund Transfer Payment % *	10.3%
Total Electric Sales	$230.8 Million
Total Electric Customers	92,461
Total Electric Sales Per Customer	$2,496
Total Employees (Budgeted)	850
Primary Fuel Exposure	Coal and Gas

Source: GRU Annual Report 2011-2012 and FRCC.

* General Fund Transfer payment as a percentage of total combined operating revenue.

Table 3.2: Top 20 GRU Customers

Top 20 GRU Customers*
1) GRU
2) University of Florida
3) Alachua County School Board
4) VA Medical Center
5) City of Gainesville
6) Alachua County Board of County Commissioners
7) Shands Teaching Hospital and Clinics Inc.
8) North Florida Regional Medical Center
9) Publix Supermarkets Inc.
10) Santa Fe College
11) Sivance LLC
12) State of Florida Department of Children and Family Services
13) Metal Container Corporation
14) Walmart Stores
15) North Florida Retirement Village
16) Bellsouth Telecommunications
17) Verizon Wireless Personal Comm LP
18) Oak Hammock at the University of Florida
19) Gainesville Housing Authority
20) State of Florida Department of Transportation

Source: GRU

* Ranking based on combined total customer revenue to GRU.

Table 3.3: GRU Customer Profile

GRU	Fiscal Year 2012
Total Electric	92,461
Residential Electric	82,039
Non-Residential Electric	10,422
Water	69,329
Wastewater	62,536
Natural Gas, Retail	33,264

Source: GRU Annual Report 2011-2012.

System Overview: Five Enterprise Funds

GRU is a combined municipal utility system operation composed of the following five enterprise funds: 1) Electric System; 2) Water System; 3) Wastewater System; 4) Gas System; and 5) Telecommunications (GRUCom). Each of these enterprise funds is accounted for internally as a separate system but reported as a combined utility system for external financial reporting purposes. GRU is owned and operated by the City of Gainesville and was created in 1912 as a city-run electric utility.

Enterprise Fund #1: Electric System

The Electric System is an electric generation, transmission and distribution system. The Electric System Energy Supply Division operates the J.R. Kelly Generating Station with a net summer generation capacity of 177 MW, the Deerhaven Generating Station with a total net summer generation capability of 417 MW and the South Energy Center with a capacity of 4 MW. The total combined generating resources for GRU are 598 MW.

The Electric System Transmission and Distribution Division is comprised of 120 miles of transmission lines, 568 miles of overhead distribution lines, 846 miles of underground distribution lines and 12 substations and switchyards. The Energy Delivery Department

is responsible for the construction, operation, and maintenance of all GRU-owned substations as well as all transmission and distribution infrastructure, which includes: conductors, cables and wires of various sizes and materials, poles, protection devices, isolating and interrupting devices, voltage regulators, meters and control systems.

Enterprise Fund #2: Water System

The Water System is a water production and distribution system. It is responsible for operating and maintaining the Murphree Water Treatment Plant, which has a treatment capacity of 54 million gallons of water per day (MGD). The Water System is also responsible for construction, operation and maintenance of over 1,128 miles of water transmission and distribution main, as well as the installation and maintenance of water meters, fire hydrants and backflow prevention devices.

Enterprise Fund #3: Wastewater System

The Wastewater System is a wastewater collection and treatment system. It operates and maintains the 14.9 MGD Kanapaha Water Reclamation Facility, the 7.5 MGD Main Street Water Reclamation Facility, 166 lift stations, 628 miles of gravity main and 139 miles of associated force main. Responsibilities include pumping, treating and discharging high-quality treated effluent that meets federal and state drinking water standards, and providing high quality reclaimed water to residential and business customers, primarily for irrigation. The Wastewater System also administers the utility's industrial pretreatment, bio-solids, grease and backflow prevention programs.

Enterprise Fund #4: Gas System

The Gas System is a natural gas distribution system. It covers approximately 115 square miles and provides service to 29 percent of Alachua County's population. Energy Delivery is responsible for the construction, operation and maintenance of all GRU-owned gate stations, as well as all transmission and distribution system infrastructure,

which includes: pipelines of various sizes and materials, valves, pressure regulators, protection devices, odorant injection systems, meters and control systems. The system as described also includes a number of propane distribution systems that are operated in developments where natural gas is not yet available.

Enterprise Fund #5: Telecommunications

GRUCom is a telecommunications system. It provides transport services utilizing a 410 mile fiber optic network. GRUCom's four basic product lines include Telecommunications (data transport and carrier services), Public Safety Radio, Tower and Co-location Leasing, and Internet Access. GRUCom is divided into several operating units. These include Business Management, Engineering, Construction, Electronics, Network Operations, and Public Safety Radio System.

Mission, Core Business Values and Area Served

GRU's mission is to provide safe, reliable, competitively priced utility services in an environmentally responsible manner to enhance the quality of life in the community. Core business values are safety, efficiency, environmental responsibility and professionalism. The Electric System served 124.5 square miles, the Natural Gas System served 115 square miles, the Water System served 118 square miles and the Wastewater System collection service area was 115 square miles in fiscal year 2012.

Gainesville Regional Utilities' Payments to Government

General Overview: General Fund Transfer (GFT)

GRU makes transfers to the City's general government – called the General Fund Transfer (GFT) - based on a pre-defined formula. The General Fund Transfer represents transfers to the General Fund by each system. The General Fund Transfer for Fiscal Years (FY) 2012 was $36.0 million and FY 2011 was $35.2 million.

GFT History: Pre-1986

Prior to 1986, there was no predetermined or formulaic mechanism for calculating GFT. General Government prepared budgets which included a dollar amount to be derived from GFT as part of annual General Fund revenue budget. Amount put forth by General Government was based on its need to support proposed expenditure budget requirements.

GFT History: 1986

During Fiscal Year (FY) 1986 budget hearings, GRU presented a report to the City Commission proposing that the transfer was too high. GRU was concerned that over the period FY 1981 – FY 1986 there was no apparent correlation between utility's ability to pay and the amount of the transfer. GRU staff noted that bond rating agencies preferred that transfers from a municipally owned utility to a general government be based on a formula.

Based on these issues, GRU recommended that General Manager and City Manager develop a formula to determine future transfers, which should include the following characteristics: track the utility's ability to pay; be stable rather than volatile; be simple and easy to administer; and provide an appropriate return to General Government. On April 14, 1986, the City Commission voted to establish a formula to determine the amount of Electric Fund and Water Fund revenues to be transferred to General Government. The GFT methodology has been modified multiple times since 1986.

GFT History: 2011 - Today

On March 4, 2010, the City Commission approved a changed to the General Fund Transfer. General Government and GRU both agreed that changes in transfer methodology could be useful in wake of economic issues facing both entities in wake of the recession. Principles important to General Government were predictability, stability and the element of guaranteed growth. Principles important to GRU were predictability,

stability and the flexibility to provide the transfer from any system which had financial ability to pay rather than defined transfer by system as in the existing model.

The result was a four (4) year agreement with fixed dollar transfers planned per year for each of the following four fiscal years: FY 2011 ($35.2 million), FY 2012 ($36.2 million), FY 2013 ($36.7 million) and FY 2014 ($38.1 million). The actual adjusted amount for FY 2011 was $35.2 million and for FY 2012 was $36.0 million).

Tables 3.4 – 3.7 below have 23 years of GFT history from FY 1990 to FY 2012.

Table 3.4: GFT History: FY 2007 - FY 2012

(Amounts in Millions of Dollars)

Fiscal Year	2012	2011	2010	2009	2008	2007
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

Table 3.5: GFT History: FY 2001 - FY 2006

(Amounts in Millions of Dollars)

Fiscal Year	2006	2005	2004	2003	2002	2001
Sales and Service Charges	$285.4	$239.9	$224.8	$211.7	$198.9	$213.1
Total Operating Revenue	$290.0	$252.2	$240.8	$225.6	$213.3	$218.8
General Fund Transfer (GFT)	$29.4	$27.3	$27.0	$25.9	$25.7	$24.4
GFT as a % of Total Op Rev	10.1%	10.8%	11.2%	11.5%	12.0%	11.1%

Source: GRU

Table 3.6: GFT History: FY 1995 - FY 2000

(Amounts in Millions of Dollars)

Fiscal Year	2000	1999	1998	1997	1996	1995
Sales and Service Charges	$187.1	$176.5	$172.8	$166.9	$168.6	$152.5
Total Operating Revenue	$192.7	$181.6	$176.3	$169.7	$170.8	$154.3
General Fund Transfer (GFT)	$23.3	$27.5	$21.4	$20.2	$19.2	$19.2
GFT as a % of Total Op Rev	12.1%	15.1%	12.1%	11.9%	11.3%	12.5%

Source: GRU

Table 3.7: GFT History: FY 1990 - FY 1994

(Amounts in Millions of Dollars)

Fiscal Year	1994	1993	1992	1991	1990
Sales and Service Charges	$149.5	$150.2	$144.9	$145.1	$137.0
Total Operating Revenue	$151.1	$151.7	$146.4	$146.5	$138.5
General Fund Transfer (GFT)	$18.8	$18.4	$18.1	$21.9	$15.2
GFT as a % of Total Op Rev	12.5%	12.1%	12.4%	14.9%	10.9%

Source: GRU

Gainesville Regional Utilities' Governance Structure

GRU has a City Commission governance structure as it is owned and operated by the City of Gainesville. The seven-member City Commission oversees the management of GRU. The City Commission Regional Utilities Committee (RUC) recommends utility-related policies for the consideration of the City Commission. The Gainesville Energy Advisory Committee (GEAC) is a citizen advisory board appointed by the City Commission. The Florida Public Service Commission has jurisdiction over the rate structure for the electric system. However, it does not regulate rate levels.

FLORIDA PEER UTILITY COMPARISON

GRU is a member of the Florida Reliability Coordinating Council (FRCC) Regional Entity Division and classified under the Generating Load-Serving Entity (LSE) Sector.

FRCC is a not-for-profit corporation whose mission is to ensure and enhance the reliability and adequacy of the Bulk Electric System (BES) in Florida now and into the future.

Load-Serving Entities secure energy and transmission service (and related Interconnected Operations Services) to serve the electrical demand and energy requirements of its end-use customers.

JEA (formerly known as Jacksonville Electric Authority), Orlando Utilities Commission (OUC), Lakeland Electric (LE), and the City of Tallahassee are also FRCC Regional Entity utilities classified under the Generating LSE Sector.

JEA and OUC have appointed utility governance structures, while LE has a Commission/Customer Committee Hybrid and the City of Tallahassee has a City Commission governance model.

The JEA Board is appointed by the Mayor of Jacksonville subject to confirmation by the Council. The OUC Board appoints is own members from a pool of candidates identified by a city nominating committee.

Peer utility profiles have been developed for JEA, OUC and LE to illustrate governance models different from the City of Gainesville.

PEER UTILITY COMPARISON: JACKSONVILLE (JEA)

JEA (formerly known as Jacksonville Electric Authority) Overview

General Overview

JEA is a municipal utility operating in Jacksonville, FL (Duval County) and parts of other counties. It has three enterprise funds: 1) Electric; 2) Water and Sewer; and 3) District Energy System. JEA is the largest municipal utility in Florida. The FY 2012 transfer payment was $104.2 million, which represented 5.5% of total combined operating revenues of $1,908.4 million. It is an independent agency of the City of Jacksonville with an appointed utility authority governance structure. The JEA Board is appointed by the Mayor of Jacksonville subject to confirmation by the Council. JEA was established in 1968 to own and manage the electric utility which had been city-owned since 1895.

Table 3.8: JEA Profile

JEA	Fiscal Year End September 30, 2012
System Type	Retail – Generating LSE Sector
Utility Systems	Electric, Water and Sewer, DES
Governance Structure	Appointed Utility Authority
Total Combined Operating Revenue	$1,908.4 Million
General Fund Transfer Payment	$104.2 Million
General Fund Transfer Payment % *	5.5%
Total Electric Sales	$1,473.1 Million
Total Electric Customers	422,315
Total Electric Sales Per Customer	$3,488
Total Employees (Budgeted)	2,158
Primary Fuel Exposure	Coal and Gas

Source: JEA Annual Disclosure Reports for Electric and Water for FY 2012 and FRCC.
* General Fund Transfer payment as a percentage of total combined operating revenue.

System Overview: Three Enterprise Funds

In 2012, JEA provided electric service to an average of 422,315 customers. JEA is a municipal utility operation composed of the following three enterprise funds: 1) Electric Enterprise Fund; 2) Water and Sewer Fund; and 3) District Energy System (DES). Each of the enterprise funds are owned and operated by JEA separately but are reported as a combined utility system for external financial reporting purposes.

Enterprise Fund #1: Electric Enterprise Fund

The Electric Enterprise Fund is comprised of the JEA Electric System, Bulk Power Supply System (Scherer), and St. John's River Power Park System (SJRPP). In 2011, JEA was the seventh largest municipally owned electric utility in the U.S. and the largest municipal electric utility in Florida in terms of number of customers. The Electric System served customer accounts in a service area covering virtually the entire City of Jacksonville in fiscal year ended September 30, 2012. JEA also sells electricity to retail customers and an electric system in neighboring counties. In addition, JEA has sold to FPL a portion of the capacity (and associated energy) of JEA's interest in the St. John's River Power Park pursuant to the long-term power sales provisions of the Power Park Joint Ownership Agreement (FPL-Power Park Sale).

Electric Utility Facilities: Electric System

The electric utility facilities of JEA are divided for financing purposes into the Electric System, the Power Park and the Scherer 4 Project. The Electric System includes generation, transmission, interconnection and distribution facilities. As of the date of the Annual Disclosure Report, the total combined installed capacity of the Electric System's generating units is 2,558 megawatts (MW), net, summer and 2,909 MW, net, winter.

Area Served

The Electric System served approximately 900 square miles, which includes virtually the entire City (Duval County), with the exception of Jacksonville Beach and Neptune Beach. The Electric System also provides retail service in portions of the northern sections of St. Johns and Clay Counties. The Electric System also furnishes power for resale to Florida Public Utilities Company, for use in the City of Fernandina Beach in Nassau County.

Enterprise Fund #2: Water and Sewer Fund

The Water and Sewer System consists of (a) facilities for the provision of potable water (Water System) and (b) facilities for the collection and treatment of wastewater (Sewer System). The overall peak capacity of the Water System is approximately 298 million gallons per day (MGD). The Sewer System average daily treatment capacity is 123 MGD and a maximum daily flow capacity of approximately 247 MGD.

Enterprise Fund #3: District Energy System

The District Energy System provides chilled water to customers for air-conditioning. The facilities for the chilled water business consist of chilled water plants to generate chilled water and underground piping to distribute the chilled water to buildings located within the respective districts served by the plants and certain ancillary equipment.

JEA Payments to Government

JEA and the City of Jacksonville periodically negotiate the terms and conditions of the formulae for calculating the amount of the City's annual assessment on JEA with respect to the Electric System. On November 27, 2007, the Council amended the Charter to revise the formula for calculating the amount of the City's annual assessment of JEA with respect to the Electric System. The new assessment formula went into effect beginning October 1, 2008 and will continue until September 30, 2016. The formula for calculating such assessments was changed from a revenue-based formula with millage-based caps to

a millage-based formula with the same millage rate which is applied to the net kWh delivered by the Electric.

JEA Governance Structure

Appointed Utility Authority (JEA Board)

JEA has an appointed utility authority governance structure (JEA Board). The JEA Board consists of seven members appointed by the Mayor of the City, subject to confirmation by the City Council. The Board members serve without pay for staggered terms of four years each, with a maximum of two consecutive full terms each.

JEA Board Member Positions

Current JEA Board members hold the following positions: Vice President, Blue Cross and Blue Shield of Florida; Managing Director, Jacksonville Office, Broad and Cassel, Attorneys at Law; Partner, Henrichsen Siegel P.L.L.C.; President & CEO, Riverplace Capital Management, Inc.; Communications Consultant, Retired President, Gannett Television Group; and First Vice President – Investments, Wells Fargo Advisors, LLC.

JEA Board Non-Voting County Representative

In addition, in accordance with the provisions of the interlocal agreement entered into between JEA and Nassau County, FL in connection with JEA's acquisition of certain assets and franchises of a private water and sewer utility in Nassau County, Nassau County is entitled to appoint a non-voting representative to the JEA Board. The Nassau County representative is entitled to attend all JEA Board meetings and to participate in discussions concerning matters that affect the provision of water and sewer services within Nassau County. Nassau County appointed a Commissioner on Nassau County's Board of County Commissioners as its representative to the JEA Board.

PEER UTILITY COMPARISON: ORLANDO (OUC)

Orlando Utilities Commission (OUC) Overview

General Overview

The Orlando Utilities Commission (OUC) is a utility system operating in Orlando, FL and provides electric and water services. OUC is the second largest municipal utility in Florida. It is governed by a five member board which includes the Mayor of the City of Orlando as an ex-officio member. The board appoints its own members. OUC transfer payments to governments in FY 2012 equaled $87.1 million, which represented 10.2% of total combined operating revenues of $854.4 million. OUC was established in 1923.

Table 3.9: OUC Profile

OUC	Fiscal Year 2012
System Type	Retail – Generating LSE Sector
Utility Systems	Electric, Water
Governance Structure	Appointed Utility Authority
Total Combined Operating Revenue	$854.4 Million
Government Transfer Payments	$87.1 Million
Government Transfer Payments % *	10.2%
Total Electric Revenues	$747.6 Million
Total Electric Customers**	191,418
Total Electric Sales Per Customer	$3,906
Total Employees (Budgeted)	N/A
Primary Fuel Exposure	Coal

Source: OUC Annual Report 2012, FRCC and FitchRatings.

* Government Transfer Payments as a percentage of total combined operating revenue.

** Total Electric Customers are electric & water customers and electric-only customers.

System Overview

In 2012, OUC provided electric and water service to 227,893 customers. OUC is responsible for the acquisition, generation, transmission and distribution of electric and water services to its customers within Orange and Osceola counties. In addition, OUC provides chilled water and lighting services. OUC's electric system provides service to customers within the City of Orlando and certain contiguous areas of Orange County. The boundaries of OUC's 248 square mile electric service area are set pursuant to a ten year territorial agreement with Duke Energy.

In 1997, OUC entered into an interlocal agreement with the City of St. Cloud in Osceola County to assume responsibility for providing retail electric energy service to its customers. OUC also operates and maintains St. Cloud's electric transmission and distribution system in its 171 square mile service territory.

OUC owns and operates a power generation facility which provides 300 MW of generation. OUC operates and jointly owns four power generation facilities. OUC also maintains operational control of a wastewater treatment facility. OUC also has participant interest in several power generation facilities where it does not have operational control. OUC provides water service to customers throughout Orlando as well as a 200 square mile service area set by a territorial agreement with Orange County.

OUC Payments to Government

Overview

OUC makes payments to the City of Orlando, the City of St. Cloud, and Orange County. OUC payments to governments for the fiscal year ended September 30, 2012 were $87.1 million, which represented 10.2% of total combined operating revenues of $854.4 million. OUC payments to governments for the fiscal year ended September 30, 2011 were $86.5 million, which represented 9.9% of total combined operating revenues of $876.0 million.

City of Orlando

OUC pays to the City of Orlando a revenue-based payment and an income-based dividend payment. The revenue-based payment is derived to yield a payment based on 6.0% of gross retail electric and water billings and 4.0% of chilled water billings for retail customers within the City of Orlando limits. The income-based payment is derived to yield a payment of 60.0% of net income before contributions.

City of St. Cloud

In April 1997, OUC entered into an interlocal agreement with the City of St. Cloud (STC) to provide retail electric energy services to all STC customers and to maintain and operate STC's electric transmission, distribution and generation facility rights and ownership interests. In return, OUC has guaranteed to pay STC 9.5% of gross retail electric billings to STC customers and to pay STC's electric system net debt service.

Orange County

OUC pays a revenue–based payment to Orange County calculated at 1.0% of gross retail electric and chilled water billings to customers within the County but outside the city limits of the City of Orlando and other municipalities.

OUC Governance Structure

OUC is governed by a five member board which includes the Mayor of the City of Orlando as an ex-officio member. Board members must be OUC customers, and at least one member must reside in unincorporated Orange County. The Board appoints is own members from a pool of candidates identified by a city nominating committee. Board members serve without pay and may hold two consecutive four-year terms. Rate changes are implemented after public workshops are held and approved by the Board.

PEER UTILITY COMPARISON: LAKELAND (LE)

Lakeland Electric (LE) Overview

General Overview

Lakeland Electric (LE) is a municipal utility operating in Lakeland, FL. It is the third largest public power utility in Florida. LE is a department of the City of Lakeland and is governed by a Utility Committee (Commission/Customer Committee Hybrid) that consists of all seven members of the City Commission plus six citizens representing a cross-section of the customer base. The FY 2012 transfer payment was $24.2 million, which represented 8.3% of total combined operating revenues of $290.3 million. LE was established in 1904.

Table 3.10: LE Profile

LE	Fiscal Year End September 30, 2012
System Type	Retail – Generating LSE Sector
Utility System	Electric
Governance Structure	Utility Committee (Hybrid)
Total Operating Revenue	$290.3 million
Government Fund Transfer Payment	$24.2 million
General Fund Transfer Payment % *	8.3%
Total Electric Sales	$290.3 million
Total Electric Customers	120,771
Total Electric Sales Per Customer	$2,404
Total Employees (Budgeted)	618
Primary Fuel Exposure	Gas

Source: LE Financial Statements 2012 and 2011 and FRCC.

* Government Fund Transfer payment as a percentage of total operating revenue.

System Overview

In 2012, LE provided electric service to 120,771 customers. LE is a vertically integrated utility as is provides electric generation, transmission, and distribution services to its customers. LE has 984 MW of generation capacity. It has over 1,800 miles of distribution lines of which 628 miles are underground and 151 miles of transmission lines. LE's service territory consists of approximately 246 square miles including the incorporated area of the City of Lakeland and a number of unincorporated communities lying within a 15-mile radius of the City.

LE Payments to Government

LE makes annual transfers to the City of Lakeland in the form of an annual dividend to the City of Lakeland, a transfer to Fleet Management Fund for new vehicles, and transfers to other funds.

LE Governance Structure

LE is governed by a 13-member Utility Committee (Commission/Customer Committee Hybrid) that consists of the Mayor, six City Commissioners, plus six citizens representing a cross-section of the customer base. Citizen Members represent residential rate, industrial rate and commercial rate class customers. The Mayor and City Commissioners' terms on the Utility Committee run simultaneously with their respective terms of office. The Citizen Members of the Utility Committee serve for a term of three (3) years.

APPENDIX

ABOUT GAINESVILLE AREA CHAMBER OF COMMERCE

Formed in 1924, the Gainesville Area Chamber of Commerce is the voice of business in the Gainesville area. Representing over 1,100 members that employ more than 70,000 employees, the Chamber firmly believes that thriving business build a thriving community. The Chamber is 5-star accredited by the United States Chamber of Commerce, putting it in the top 1% of all Chambers nationwide. Learn more at www.GainesvilleChamber.com or call us at 352.334.7100.

Creating Opportunity Through Outreach…

The Council for Economic Outreach (CEO) is the official economic development agency in Alachua County. It attracts new business and investment to the Gainesville region and help existing businesses grow. CEO markets the assets of the region to the national and international business community. Please visit us at www.GCEO.com

… and Innovation…

The Chamber led the creation of Innovation Gainesville (iG), which began as a community-wide initiative to harness innovation to create jobs. It now encompasses a movement of individuals and organizations collaborating to grow an ecosystem fostering innovation and success. Please visit us at www.InnovationGainesville.com

…and Advocacy

The Chamber advocates policies and promotes programs that help businesses thrive. It advances the interests of the business community at various levels of government. The Chamber engages elected officials and staff on important issues fostering business growth and economic development. Please contact us at PublicPolicy@GainesvilleChamber.com

ENERGY STUDY GROUP MEMBERS

The Gainesville Area Chamber of Commerce Energy Study Group (ESG) was formed in February 2013 as a sub-committee of the Public Policy Committee of the Chamber. The ESG had twelve (12) members and the following three sub-groups: Governance; General Fund Transfer; and Peer Utilities. The leadership, membership and staff of the Energy Study Group were as follows:

N. David Flagg (Chair)
Former Mayor of Gainesville and State Representative

Dr. David A. Denslow, Jr. (Vice Chair)
Retired University of Florida Economist

Charles W. Anchors, Jr. (Peer Utilities Sub-Group Chair)
AVP-Geriatric Services, Senior Healthcare Centers, North Florida Regional Healthcare

Dean R. Cheshire (Governance Sub-Group Chair)
Vice President, Cheshire Companies

Ken Cornell (General Fund Transfer Sub-Group Chair)
Senior Vice President, Bosshardt Realty

Rich Blaser
Co-CEO, Infinite Energy

Chuck Clemons
Vice President, Santa Fe College
Former Commissioner, Alachua County Board of County Commissioners

Rosemary F. Fagler
Manager Community Relations Florida, Plum Creek

Mike Giampietro

President, Generation Wy

Joel Islam

President, Florida Food Service

Perry C. McGriff, Jr.

Principal, McGriff, Fletcher, Johnson Insurance

Former Mayor-Commissioner of Gainesville and State Representative

Former Commissioner, Alachua County Board of County Commissioners

Reverend Dr. N. LaMonte Newsome*

Former Pastor, Mt. Carmel Baptist Church

*Dr. Newsome resigned from ESG in August 2013 and announced plans to relocate.

Kamal I. Latham (Staff)
Vice President for Public Policy, Gainesville Area Chamber of Commerce

CHAMBER AND ENERGY STUDY GROUP MEETINGS

The Gainesville Area Chamber of Commerce and its Energy Study Group (ESG) held or participated in at least 35 private and public meetings related to utility matters and the preparation of this report. Thirty (30) meetings were private (86% of the meetings) and five (5) meetings were public (14% of the meetings). The meetings held were as follows:

April 15: GRU General Manager Bob Hunzinger, CFO Jennifer Hunt; Public Affairs Director Nona Jones; City of Gainesville Finance Director Mark Benton (ESG Meeting)

April 26: GRU CFO Jennifer Hunt and City of Gainesville Finance Director Mark Benton (General Fund Transfer Sub-Group Meeting)

April 29: Peer Utilities Sub-Group Meeting

May 7: Alachua County Board of County Commissioners / Chamber Special Public Meeting on Utility Matters

May 15: City of Gainesville Mayor-Elect Ed Braddy (ESG Meeting)

June 13: Gainesville Airport Authority Chairman Ian Fletcher and CEO Allan Penksa (Governance Sub-Group Meeting)

June 20: Gainesville City Commission / Chamber Public Meeting on Proposed City/Chamber Public Workshop on Utility Matters

June 24: Barry Moline, Executive Director, Florida Municipal Electric Association (ESG Meeting)

July 17: Chamber Public Meeting at Springhill Missionary Baptist Church
Event Title: “Your Utility Bill: A Conversation with the Chamber”

August: General Fund Transfer Sub-Group Meeting

August 13: Gainesville City Commission / Chamber Public Workshop on Energy

August 20: Alachua County Board of County Commissioners / Chamber Public Meeting on Energy

August 22: Governance Sub-Group Meeting

August 29: Former City of Gainesville Mayor Pegeen Hanrahan and Current City of Gainesville Commissioner Thomas Hawkins (ESG Meeting)

September 4: Governance Sub-Group Meeting

September 4: Nathan Skop, Former Commissioner, Florida Public Service Commission (Peer Utilities Sub-Group Meeting)

September 4: City of Gainesville Mayor-Commissioner Pro-Tem Randy Wells

September 5: Governance Sub-Group Meeting

September 9: City of Gainesville Mayor Ed Braddy (ESG Meeting)

September 9: Professor Joe Little, Former City of Gainesville Commissioner (ESG Meeting)

September 10: City of Gainesville Commissioner Susan Bottcher (ESG Meeting)

September 10: City of Gainesville Commissioner Todd Chase (ESG Meeting)

September 10: City of Gainesville Commissioner Lauren Poe (ESG Meeting)

September 10: GRU General Manager Bob Hunzinger; Public Affairs Director Nona Jones**;** Rates and Economic Analysis Manager Diane Wilson (Peer Utilities Sub-Group Meeting)

September 11: General Fund Transfer Sub-Group Meeting

September 11: Penny Wheat, Former Commissioner, Alachua County Board of County Commissioners (ESG Meeting)

September 11: University of Florida Vice President for Business Affairs Curtis Reynolds; Assistant Vice President for Business Affairs Jeff Chorlog; Assistant Vice President – Community Relations Susan Crowley (ESG Meeting)

September 12: City of Gainesville Commissioner Yvonne Hinson-Rawls (ESG Meeting)

September 12: State Representative Keith Perry (ESG Meeting)

September 12: ESG Meeting

September 18: Final ESG Meeting

November 7: Chamber Public Policy Committee Special Meeting on Energy Report

November 12: Special Chamber Board of Directors and Executive Committee Briefing on the Energy Report

November 14: Chamber Executive Committee Review and Approval of Energy Report

November 21: Chamber Board of Directors Review and Approval of Energy Report

Gainesville Area CHAMBER OF COMMERCE

GOALS AND OBJECTIVES FOR A CHAMBER ENERGY POLICY

Purpose

Provide guidance on developing a public policy position for the Chamber of Commerce. This policy would be designed to help us remain a competitively advantaged community for sustainable economic development as it relates to overall energy costs.

Goal 1

Develop and recommend a peer group of utilities and their total costs at certain levels of usage and how they compare to GRU rates. The peer group shall include a group of municipally run utilities and a group of communities that we compete with on an economic competitive level and their non-municipally owned utility charges.

Goal 2

Objectively research and recommend the most advantageous oversight structure for the operation of GRU for its owners.

Goal 3

Agree on and recommend a benchmark to the Chamber of a not to exceed total cost level within the peer group (e.g. the total cost of energy shall not exceed the cost of "x" ranking of the peer group).

Goal 4

Research and recommend an acceptable level of revenue transfer from GRU to the City of Gainesville for its general fund use. All taxes, transfers, surcharges and fees shall be taken into consideration.

FEEDBACK FROM ELECTED OFFICIALS AND THE PUBLIC

The Chamber has received feedback from elected officials and the public on utility matters through public and private meetings. Select feedback received is below:

General

1) Re-establish the Rate Impact Measure (RIM) Test.
2) Encourage annexation of properties into the City of Gainesville.
3) Work to have a federal stimulus grant for renewable energy projects expanded to apply to public utilities that purchase a power plant.
4) Advocate passage of a federal tax incentive for renewable energy users.
5) Work to increase revenues from the largest economic drivers of Gainesville.

Governance

6) Change the GRU governance model to facilitate more expertise in GRU oversight and reduce political considerations in policymaking.
7) It is unfair for GRU rate payers outside the City of Gainesville to pay a surcharge for utility services but not have a "say" in the governance of GRU.
8) Do not change the GRU governance model as it has been successful for 100 years.
9) Expand the Regional Utility Committee to include a county commissioner.
10) Enable GRU rate-payers to elect GRU board members.

General Fund Transfer (GFT)

11) Reduce the GFT payment to reduce the cost of utilities but do not raise property taxes to offset the lost revenue to the General Government Fund.
12) The GFT payment should reflect an appropriate return on investment for the city as it pays for fire, police and other essential public services.
13) Itemize the GFT payment component on rate-payer bills.
14) Classify the GFT payment as a tax which could be deducted from federal taxes.

15) Establish the GFT at the FY 2012 level and implement a new formula that would reflect the average transfer payment of municipally-owned utilities. However, the transfer would be the greater of the two, therefore not reducing the transfer and not requiring an increase in property taxes.

Additional

16) Facilitate competition for GRU rate-payers outside of Gainesville by enabling them to choose between GRU and Clay Electric.
17) Make new power generation plants exempt from property taxes since they could be 100% owned and used by the city, thereby realizing multi-year savings for rate payers.
18) Implement a rate reduction to users who have electric cars. In a tiered structure they would be penalized for consuming more energy and we need to have an incentive to "go electric" and consume our over-capacity.
19) The University of Florida should try to leverage its relationship with Duke/Progress Energy to have them buy 50 megawatts of power from GRU.
20) GRU should respect the historical boundary of Duke/Progress Energy's service area and recalibrate their view on whether or not they could sell to the University of Florida.
21) Encourage University of Florida students to vote and pay into a "green" energy fee to offset any increase to the University of Florida for buying green energy off the grid via their provider Duke/Progress Energy.

PROFILES: GACRAA (AIRPORT AUTHORITY) AND GEAC

Gainesville-Alachua County Regional Airport Authority (GACRAA)

According to GACRAA, GACRAA is responsible for making decisions regarding activity, policy and budget matters. The GACRAA board has nine (9) appointees. The Gainesville City Commission appoints five (5) members. The Alachua County Board of County Commissioners appoints one (1) member. The Governor of the State of Florida appoints three (3) members. The Gainesville City Commission was the airport oversight body prior to establishment of the airport authority.

Gainesville Energy Advisory Committee (GEAC)

According to City of Gainesville records, GEAC emerged from a negotiated settlement agreement between the Sierra Club and the City of Gainesville's Regional Utilities Board (RUB). In 1978, as part of the negotiated settlement, the Regional Utilities Board Citizen's Advisory Committee on Energy Conservation was established. In 1980, the citizen advisory committee was restructured as the Energy Conservation Advisory Committee (ECAC). In 1982, the status was changed and the City formally adopted an ordinance establishing a permanent standing citizen advisory committee on energy issues, renamed the Gainesville Energy Advisory Committee (GEAC). The committee members are appointed by the Gainesville City Commission and are eligible to run for – and hold – public office.

SELECT GOVERNMENT UTILITY SECTOR ENTITIES

Federal Energy Regulatory Commission (FERC): FERC is an independent agency that regulates the interstate transmission of electricity, natural gas, and oil. FERC also reviews proposals to build liquefied natural gas (LNG) terminals and interstate natural gas pipelines as well as licensing hydropower projects. Many areas outside of FERC's jurisdictional responsibility are dealt with by State Public Utility Commissions. The FERC website is www.ferc.gov.

Florida Public Service Commission: PSC is the Public Utility Commission for the State of Florida. PSC is committed to making sure that Florida's consumers receive some of their most essential services -- electric, natural gas, telephone, water, and wastewater -- in a safe, affordable, and reliable manner. In doing so, the PSC exercises regulatory authority over utilities in one or more of three key areas: rate base/economic regulation; competitive market oversight; and monitoring of safety, reliability, and service issues. While the PSC does not fully regulate publicly owned municipal or cooperative electric utilities, the Commission does have jurisdiction, with regard to rate structure, territorial boundaries, bulk power supply operations and planning, over municipally owned electric systems and rural electric cooperatives. The PSC has jurisdiction, with regard to territorial boundaries and safety, over municipally owned natural gas utilities and also exercises safety authority over all electric and natural gas systems operating in the state. The Florida PSC website is www.floridapsc.com.

SELECT NON-GOVERNMENT UTILITY SECTOR ENTITIES

North American Electric Reliability Corporation (NERC): NERC is a not-for-profit entity whose mission is to ensure the reliability of the Bulk-Power System in North America. NERC develops and enforces Reliability Standards; annually assesses seasonal and long-term reliability; monitors the Bulk-Power System through system awareness; and educates, trains and certifies industry personnel. NERC's area of responsibility spans the continental United States, Canada and the northern portion of Baja California, Mexico. NERC is the electric reliability organization for North America, subject to oversight by the Federal Energy Regulatory Commission and governmental authorities in Canada. Entities under NERC's jurisdiction are the users, owners and operators of the Bulk-Power System, which serves more than 334 million people. The NERC website is www.nerc.com

Florida Reliability Coordinating Council (FRCC): FRCC is a Florida not-for-profit corporation that was formed in 1996 and is one of the eight regions of the North American Electric Reliability Corporation (NERC). The FRCC's mission is to ensure and enhance the reliability and adequacy of the Bulk Electric System (BES) in Florida now and into the future. The FRCC Region is comprised of all of Florida east of the Apalachicola River. Florida's unique geography and its highly integrated transmission system coupled with its single interface boundary to the rest of the Eastern Interconnection required the development of a reliability focus in the FRCC Region. Membership in the FRCC's Regional Entity Division is open to any entity, without cost, that has a material interest in the reliability of the BES in the FRCC Region. The FRCC web site is www.frcc.com.

American Public Power Association (APPA): APPA, based in Washington, D.C., is the service organization for the nation's more than 2,000 community-owned electric utilities. Collectively, these utilities serve more than 47 million Americans. APPA was created in 1940 as a nonprofit, non-partisan organization to advance the public policy interests of its members and their consumers, and provide member services to ensure adequate, reliable electricity at a reasonable price with the proper protection of the environment. Policy positions emphasize the importance of hometown decision making that puts customers first and ensures a stable supply of electricity while protecting the environment. Since two-thirds of public power systems do not generate their own electricity and instead buy it on the wholesale market for distribution to customers, securing competitively priced and reliable wholesale power is a priority. The APPA website is www.publicpower.org.

Florida Municipal Electric Association (FMEA): FMEA, located in Tallahassee, FL, is the trade association for 34 public power communities across Florida. FMEA was established in 1942 in response to WWII fuel shortages and is now the official meeting place for Florida's public power community. In addition to municipal electric utility members, FMEA has associate member companies, public agencies, and affiliates. Together, FMEA staff and utility members work to protect public power's legislative, regulatory and operational interests, and to strengthen our common bonds for the benefit of Florida's communities. Public power utilities play an important role in Florida's electric industry. They serve 15 percent of the state's population – 3.0 million Floridians; Provide an industry-wide yardstick for efficient operation and superior service; Promote increased wholesale competition to lower consumer power costs, and have been at the forefront of efforts to improve wholesale transmission access; Are community-owned and locally managed; and Support local government with transfer payments, which help communities pay for fire and police protection and other important local services. FMEA provides its members with government relations, communications and education services. The FMEA web site is www.publicpower.com.

GLOSSARY

Capability: The maximum load which a generating unit, generating station, or other electrical apparatus can carry under specified conditions for a given period of time, without exceeding approved limits of temperature and stress.

Demand: The rate at which electric energy is delivered to or by a system or part of a system, generally expressed in kilowatts or megawatts, at a given instant or averaged over any designated interval of time. The rate at which energy is being used by the customer. The primary source of "Demand" is the power-consuming equipment of the customers. See **Load**.

Electric System: The physically connected generation, transmission, distribution, and other facilities operated as an integral unit under one control, management, or operating supervision.

Generating Load Serving Entity (LSE) Sector: Any Load Serving Entity that is not investor owned and that generates at least 25% of its energy requirements for retail sales, and that has an annual Full Requirements Energy for Load (FREL) greater than 1,800 GWH in the FRCC Region.

Generating Station (Generating Plant or Power Plant): A station with prime movers, electric generators, and auxiliary equipment for converting mechanical, chemical, and/or nuclear energy into electric energy.

Interchange Sales: Large blocks of energy sold to other utilities.

Kilowatt (KW): 1,000 watts. See **Watt**.

Kilowatt-Hour (KWH): The basic unit of electric energy equal to one kilowatt of power supplied to or taken from an electric circuit steady for one hour.

Load: An end-use device or customer that receives power from the electric system. The amount of electric power delivered or required at any specific point or points on a system. Load originates primarily at the power-consuming equipment of the customers.

Load-Serving Entity (LSE): Secures energy and transmission service (and related Interconnected Operations Services) to serve the electrical demand and energy requirements of its end-use customers.

Megawatt-Hour (MWH): 1,000 kilowatt-hours. See **Kilowatt-Hours**.

Municipally-Owned Electric System: An electric utility system owned and/or operated by a municipality engaged in serving residential, commercial, and/or industrial customers, usually, but not always, within the boundaries of the municipality.

Service Area: Territory in which a utility system is required or has the right to supply electric service to ultimate customers.

Standard Deviation: A measure of a dispersion of a set of data from its mean (average). The more spread apart the data, the higher the deviation.

Watt: The electrical unit of power.

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