

City of Gainesville

Inter-Office Communication

Office of the City Manager

Mail Station 6

334-5010

TO: Hon. Mayor and Members of
the City Commission

DATE: January 24, 2000

FROM: Wayne Bowers
City Manager

Michael L. Kurtz
General Manager for Utilities

SUBJECT: Electric System Transfer Formula

Much of last summer's budget discussions centered on deregulation of the electric utility industry. We spoke at length about the competitive pressures that will be brought to bear on GRU when the changes to the basic structure of the industry come to fruition. While the exact date of deregulation is not yet known, we established 2003 as our planning target. There was also considerable dialogue on the projected impact to the General Fund Transfer resulting from the City's response to these challenges, such as further rate reductions or modifications to the existing surcharge levies. We concluded with a commitment that General Government and GRU staff would work in the coming months to identify potential adjustments to the electric system transfer formula that would better meet the needs of both segments of the organization.

With this objective in mind staff has met a number of times in the subsequent months to review the current formula, to identify the ways in which it exposes the organization to risk, and to develop proposed modifications to mitigate these risks. Additionally, in order to gain an independent perspective, we commissioned General Government's financial advisor, Public Financial Management (PFM), to perform a study on the transfer issue. We asked PFM to review our existing formula, to identify its advantages and disadvantages, to survey other cities and document their transfer formulas, to report on how other municipalities are dealing with the deregulation issue, and to make recommendations as to potential formula modifications. Attached is the PFM report.

Essentially the report concluded that there is no single modification or "magic bullet" that will alter the formula in a way to insure that General Government financial interests are best protected and to insure that GRU is best equipped to compete in a deregulated environment. However, the report did confirm the issues that should be further explored by staff in order to prepare the City for electric utility deregulation. These issues include:

- GRU should continue its plan to identify electric system costs attributable to generation, transmission, and distribution.

- The City should be prepared to eliminate the surcharge related to the generation component of the electric charge. The City should explore whether the surcharge can remain on transmission and distribution only.
- Distinct transfer formulas should be developed for each system to best advantage the City based on competitive pressures faced by each individual system. Currently the same percentage of gross revenues is incorporated in the transfer for each of the utility's systems, other than GRUCom.
- Consideration should be given to modifying the current formula, which is based on a percentage of gross dollar revenues, to a dollars per kilowatt delivered methodology.
- The current formula should be modified with respect to interchange sales. These sales can be very low margin transactions and from an economic sense it may be more pragmatic to treat them differently from other electric revenues.
- The City needs to establish a policy for General Fund transfers from GRUCom.


The staff also developed an issue that was not included in the PFM study. The City should determine if a franchise fee can be levied on sales by outside electric utilities who deliver energy to customers in the city through GRU lines after deregulation becomes effective.

Our objective is to develop a transfer methodology that will furnish General Government with the resources necessary to continue to provide the required service levels while allowing GRU to successfully compete in a deregulated environment. In the coming months staff will continue to work through these and other issues to develop such a methodology, so that the City will be positioned to successfully meet the challenges of deregulation by 2003. We plan to discuss these issues in more detail during the planning retreat on January 28.

Respectfully submitted,



 Wayne Bowers
 City Manager



 Michael L. Kurtz
 General Manager for Utilities

Attachment