

Proposed Annual Operating Budget Fiscal Year 2018

Item #170180

July 5, 2017



Agenda

- Budget Overview
- Budget Highlights
- Proposed Budget and Financial Metrics
- Forecasts
- Rates & Charges

Strategic Overview

Overarching Strategy

GRU will strive to become the best regional utility in our state providing dependable, competitively priced services while investing in the business decisions and the people that will facilitate the optimum long-term benefit for the community.

Strategic Overview

Fundamental Statements of Purpose

VISION: GRU envisions a well-run business optimizing all aspects of the organization for the benefit of the customers and the community at large.

MISSION: GRU will provide safe, reliable, competitively priced utility services in an environmentally responsible manner and will actively contribute to the enhancement of the quality of life in our community.

CULTURE: GRU will strive to earn the honor of being Gainesville's best place to work based on the quality of the staff, the operational teamwork, the internal alignment with corporate goals, and a passionate commitment to the community it serves.

Overview

- Striving for competitive electric rates
 - City Commission adopted goal of rates at $\frac{1}{2}$ of one standard deviation above the mean of FMEA surveyed utilities
- Ongoing regulatory pressure in all systems
- Desire to maintain/improve system reliability
- Excellent customer value/customer service
- Maintain financial strength
- Continue to improve employee engagement

Budget Highlights

Personnel

- Adding 9.5 FTEs in FY18, deleting 1 for net increase of 8.5 FTEs
- Partially related to ERP implementation
 - Allow us to maximize expanded capability of system
- First budgeted FTE increase since 2012
 - Deleted 2 FTEs in FY17 budget, 20 FTEs in FY16
- Includes funding for 2% employee pay increase
- Living wage increase & related compression January 2017
- Maintaining budgeted 6% vacancy factor

Budget Highlights

- Includes costs for continued ERP implementation (Customer Care System & EAM)
 - Approximately \$6.2M in O&M 2018
 - Approximately \$14.5M in Capital 2018
- Convert outdoor lighting to LED
- Optimizing use of Commercial Paper program

Electric System

- 2% increase in revenue requirement
 - First base rate increase since FY12
- SEC Phase 2 to be completed in FY18
 - UF Health Heart & Vascular Neuromedicine hospitals
- Deerhaven CT3 outage
- Fuel Adjustment increased to 75 mills effective August 1, 2017
- Impact to 1,000 kWh residential bill = \$6.15

Gas System

- No increase to revenue requirement
- New development projects in Butler Plaza expanding Energy Delivery system in gas
- Purchased Gas Adjustment (PGA) increased from \$0.23 to \$0.33 per therm effective August 1, 2017
- Impact to 25 therm residential bill = \$2.50

Water System

- No increase to revenue requirement
- O & M pressure from electricity and chemicals
- Electrical system upgrade at Murphree Plant
- Replacement of
 - Polybutylene services
 - Galvanized steel pipes

Wastewater System

- No increase to revenue requirement
- O & M pressure from electricity & chemicals
- Lining to reduce inflow and infiltration
- Main Street Plant
 - Headworks replacement
 - East Train rehabilitation
- Kanapaha Plant
 - Replacement of mechanical and electrical equipment

GRUCom

- Operating costs associated with network expansion from growth
 - SBAC Fiber Optic System Expansion
 - Alachua County Library District
- Negotiating expansion and upgrade of Trunking Radio System (\$3.5 million)
- Developing new products and services to sell deeper into existing base and expand into different tiers of business

Projected Future Revenue Requirement Increases

	2018	2019	2020	2021	2022	2023
Electric	2.00%	3.00%	4.00%	2.00%	1.00%	2.00%
Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Water	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Wastewater	0.00%	0.00%	0.00%	4.00%	4.00%	1.00%

PROPOSED BUDGET AND FINANCIAL METRICS

Budget Overview

Combined System Total Non-Fuel O&M

Budget 2017	Projection 2017	Original Budget 2018	Revised Budget 2018
\$120,719,075	\$123,835,369	\$125,291,868	\$132,927,434

Combined System Total Capital

Budget 2017	Projection 2017	Original Budget 2018	Revised Budget 2018
\$78,588,285	\$78,058,864	\$72,597,012	\$106,625,370

Significant FY18 Capital Projects

ERP Implementation	14,500,000
Murphree Plant Electrical System Upgrade	7,500,000
Automated Meter Infrastructure	5,000,000
Deerhaven CT #3	4,412,000
Deerhaven Unit #1 and Unit #2	4,225,000
Parker Substation Expansion	3,846,000
Gravity Collection System	3,805,000
Trunking Radio System	3,500,000
Main Street Water Reclamation Facility	3,125,000
Kanapaha Water Reclamation Facility	2,510,000

Proposed Residential Rate Summary – Standard Usage

System	Usage	June 2017 Bill	Base Rate Change	Fuel Change	Proposed FY 2018 Bill
Electric	1000 kWh	\$130.40	\$1.15	\$5.00	\$136.55
Gas	25 therms	\$ 32.64	\$0.00	\$2.50	\$ 35.14
Water	7 kgal	\$ 30.50	\$0.00	N/A	\$ 30.50
Wastewater	7 kgal	<u>\$ 53.20</u>	<u>\$0.00</u>	<u>N/A</u>	<u>\$ 53.20</u>
Total Bill		\$246.74	\$1.15	\$7.50	\$255.39
Percentage Increase			0.47%	3.04%	3.51%

Proposed Residential Rate Summary – Average Usage

System	Usage	June 2017 Bill	Base Rate Change	Fuel Change	Proposed FY 2018 Bill
Electric	800 kWh	\$104.65	\$0.80	\$4.00	\$109.45
Gas	20 therms	\$28.06	\$0.00	\$2.00	\$30.06
Water	5 kgals	\$23.00	\$0.00	N/A	\$23.00
Wastewater	4 kgals	<u>\$34.30</u>	<u>\$0.00</u>	<u>N/A</u>	<u>\$34.30</u>
Total Bill		\$190.01	\$0.80	\$6.00	\$196.81
Percentage Increase			0.42%	3.16%	3.58%

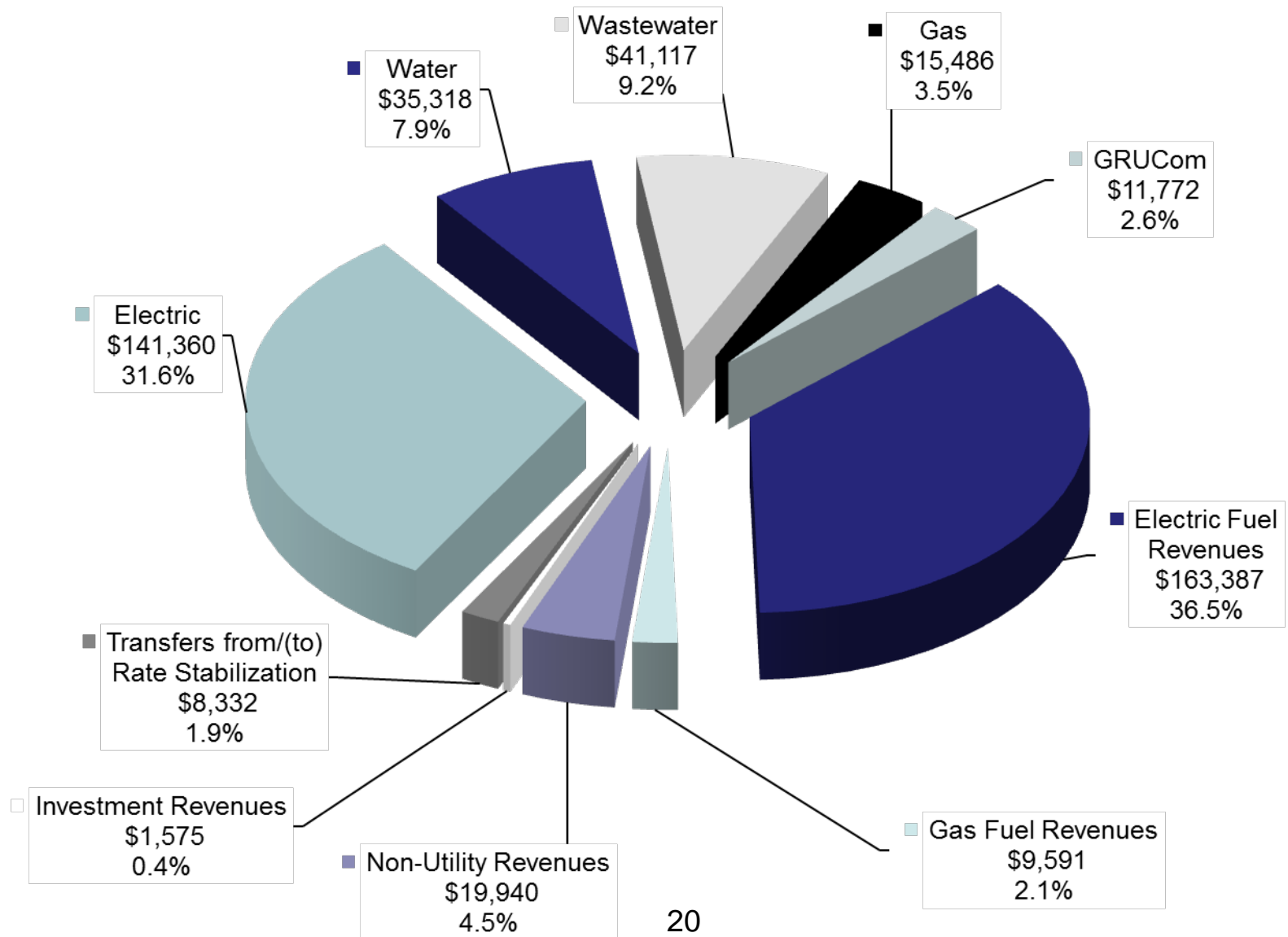
O&M and Capital to Change Revenue Requirement for Rates

To decrease requirement by 1 percent,
O&M or Capital would need to decrease by:

System	Electric	Gas	Water	Wastewater
O&M	1.2M	128K	305K	381K
Capital	20M	2M	5M	6M

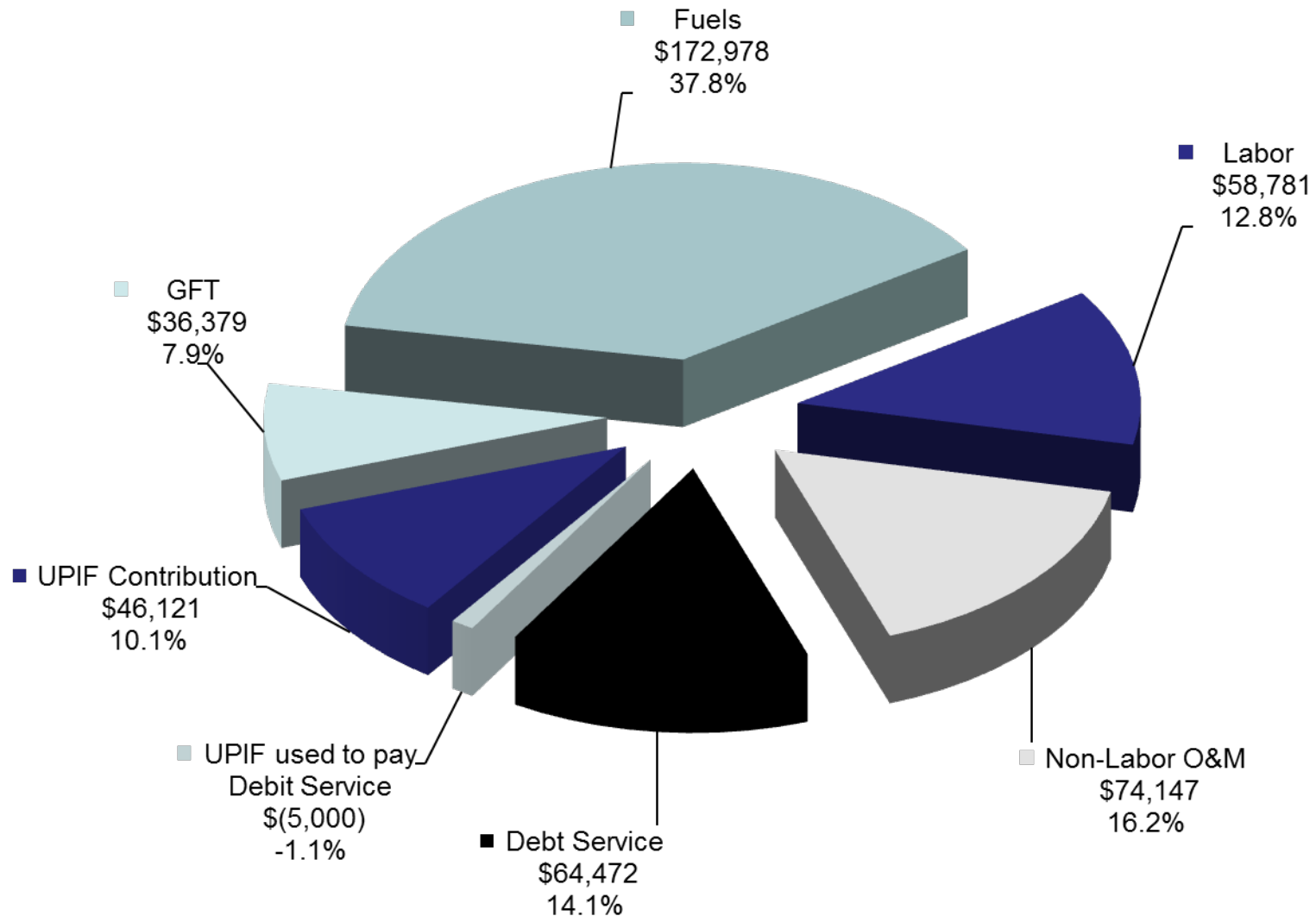
FY18 Revenue Classification

Dollars in Thousands

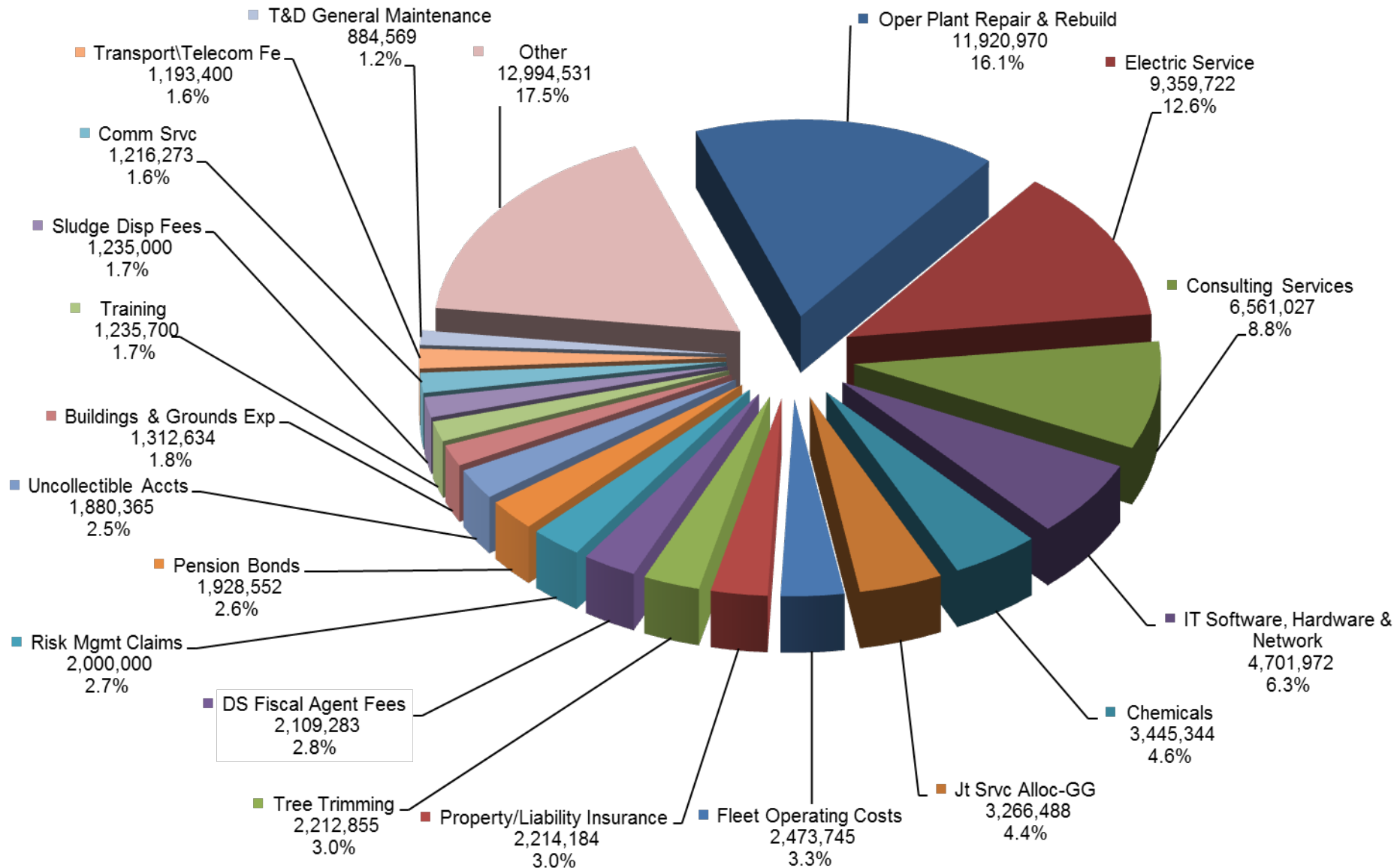


FY18 Expense Classification

Dollars in Thousands



FY18 Non-Labor Expense Detail

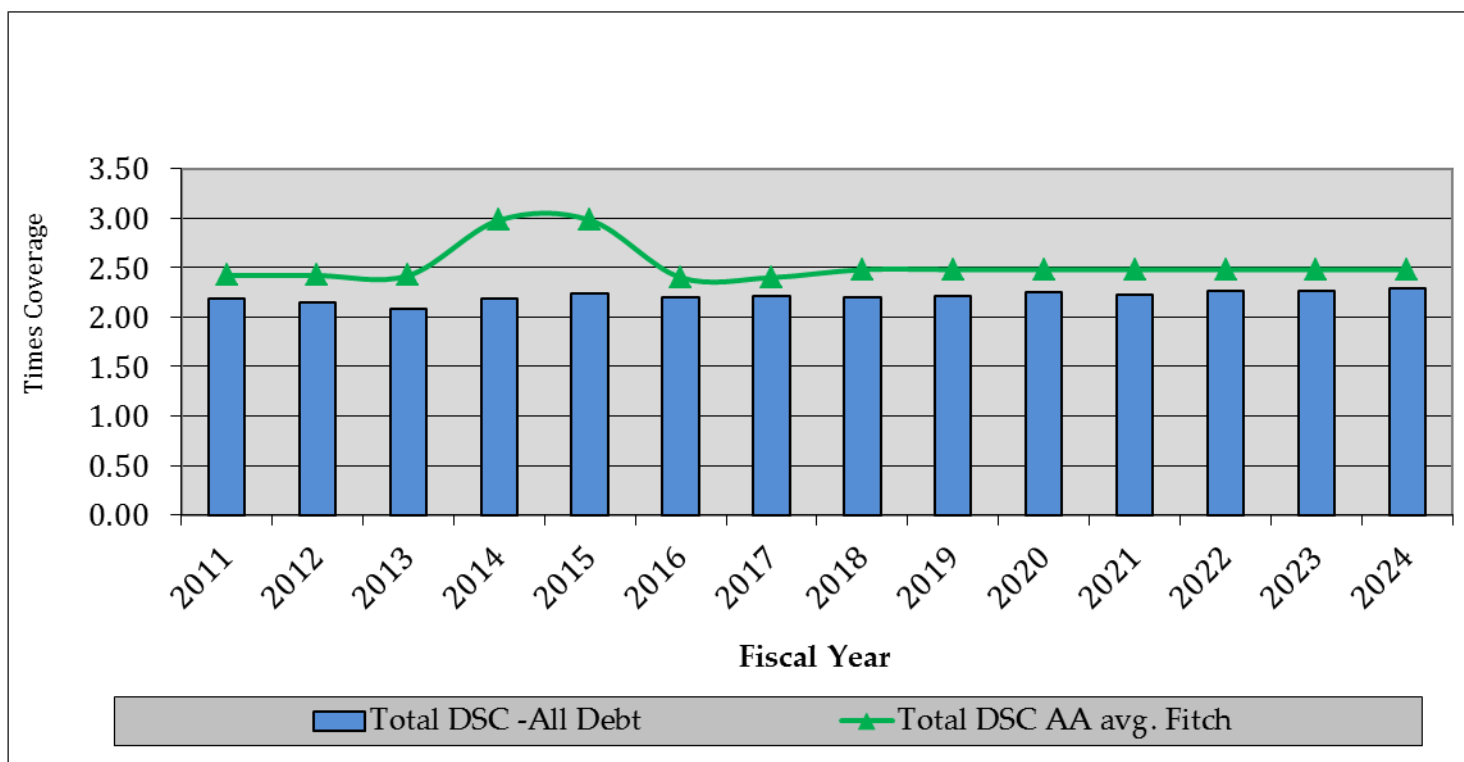


FY2017 Sales Results Through May

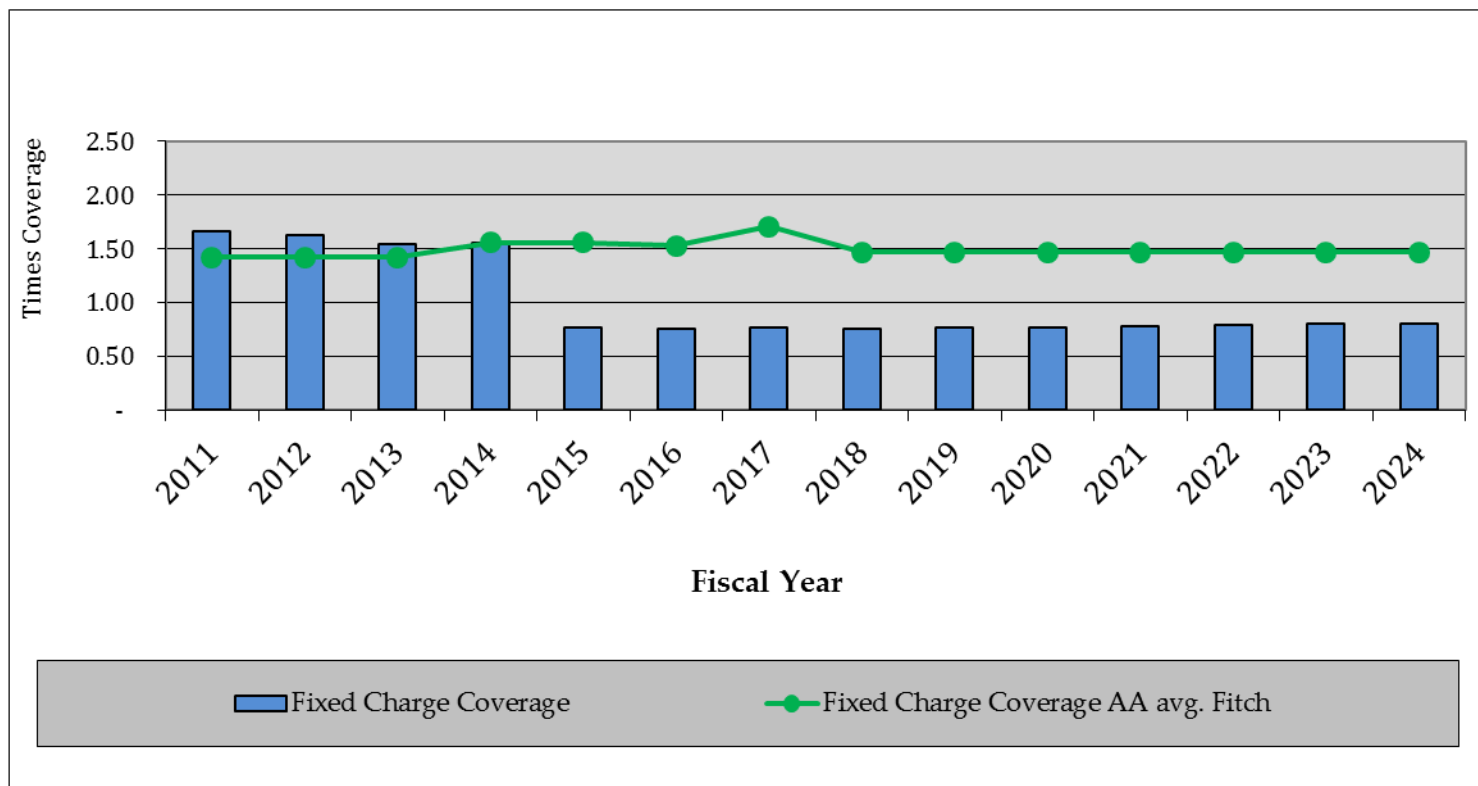
	Actual October – May	FY2017 Budget	Absolute Difference	Percentage Difference
Electric - Retail MWh	1,059,377	1,076,942	-17,565	-1.6%
Electric - Wholesale MWh	137,240	138,196	-956	-0.7%
Electric - Total (Native) MWh	1,196,617	1,215,137	-18,521	-1.5%
Electric - Retail Base Rate Revenue (\$000)	\$77,809	\$79,472	-\$1,663	-2.1%
Electric - Wholesale Base Rate Revenue (\$000)	\$2,301	\$2,293	\$8	0.4%
Electric - Total Base Rate Revenue (\$000)	\$80,111	\$81,765	-\$1,655	-2.0%
Natural Gas - Retail Therms	14,315,515	16,510,348	-2,194,833	-13.3%
Natural Gas - Base Rate Revenue (\$000)	\$9,927	\$11,290	-\$1,363	-12.1%
Water - Total kGal	4,763,759	4,431,969	331,790	7.5%
Water - Total Revenue (\$000)	\$23,457	\$21,421	\$2,035	9.5%
Wastewater - Total kGal	3,122,974	3,023,585	99,389	3.3%
Wastewater - Total Revenue (\$000)	\$26,880	\$25,813	\$1,067	4.1%

FINANCIAL METRICS

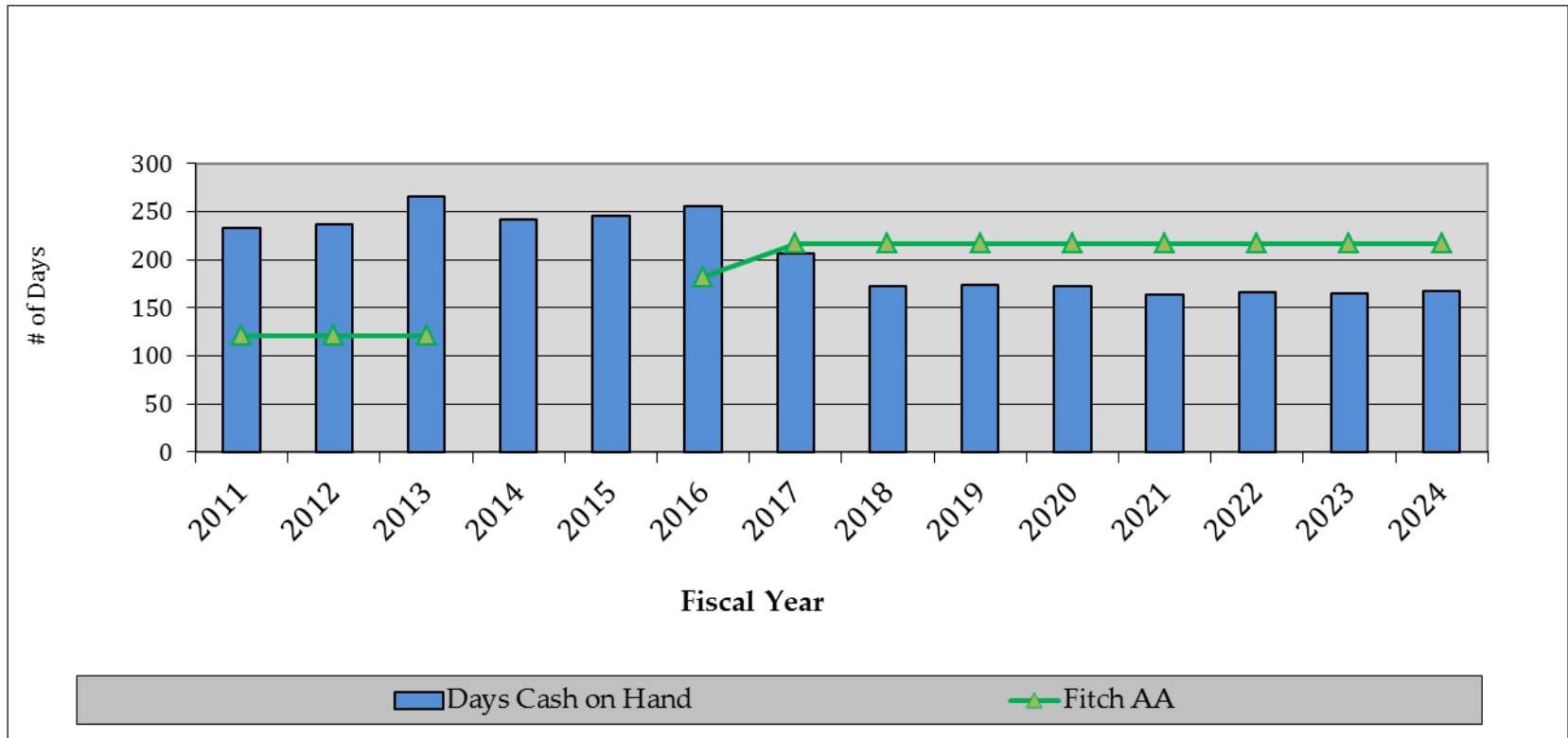
Debt Service Coverage



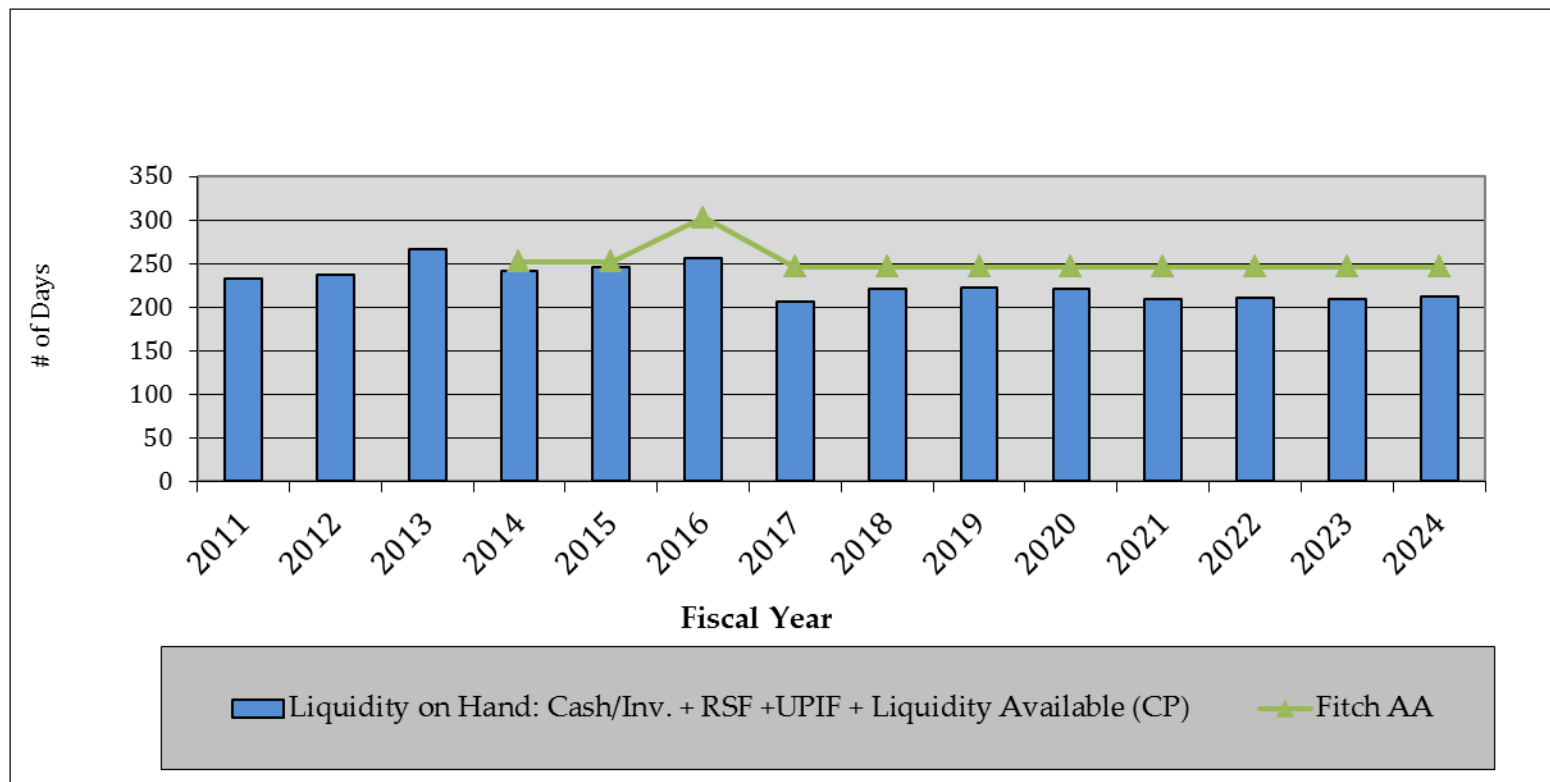
Fixed Charge Coverage



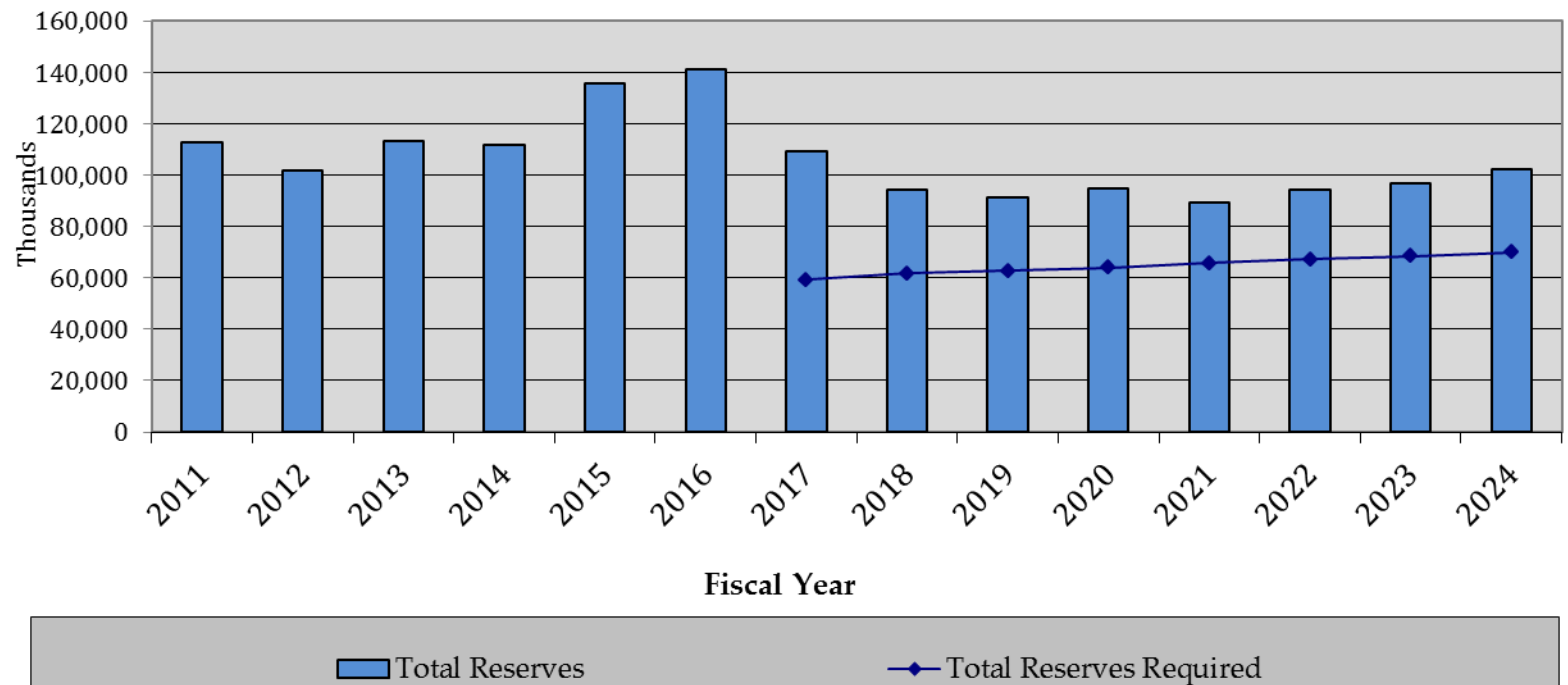
Days Cash on Hand



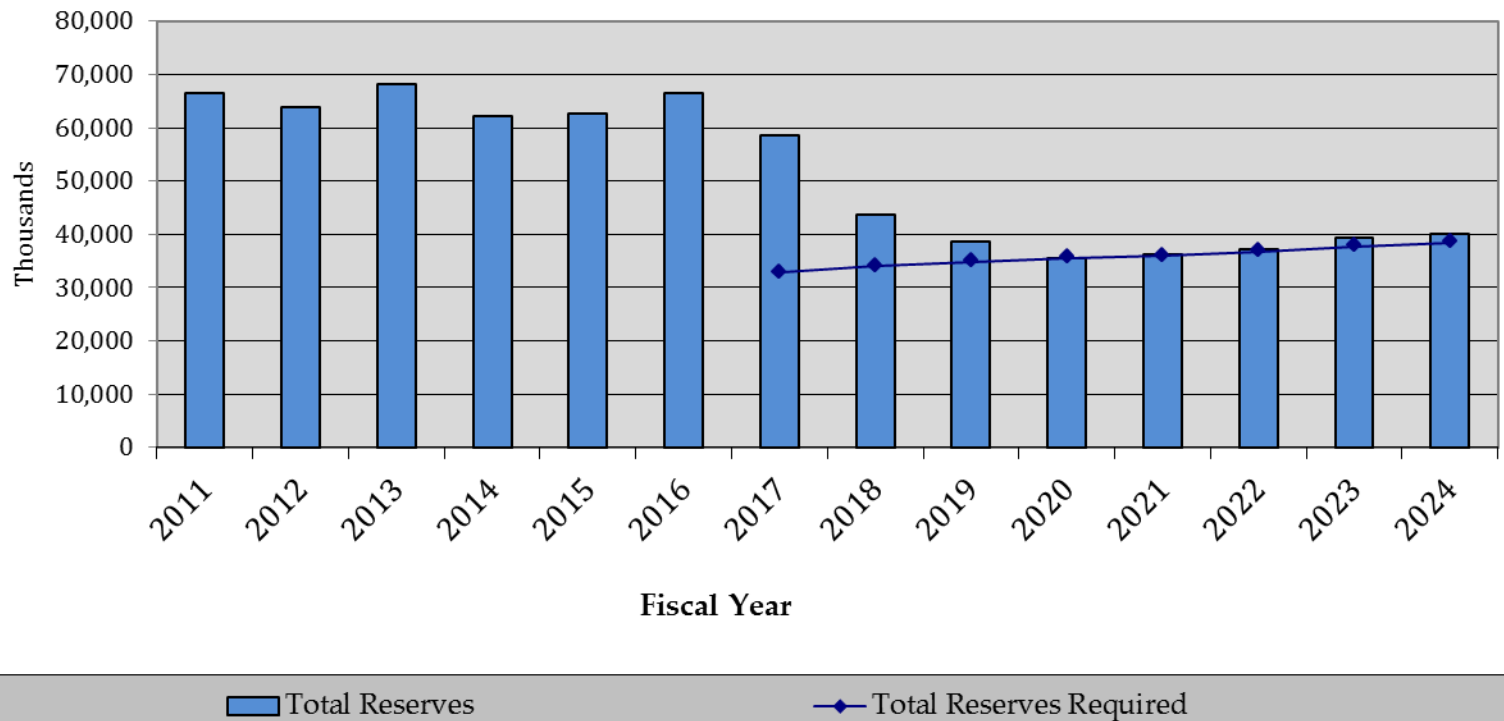
Days Liquidity on Hand



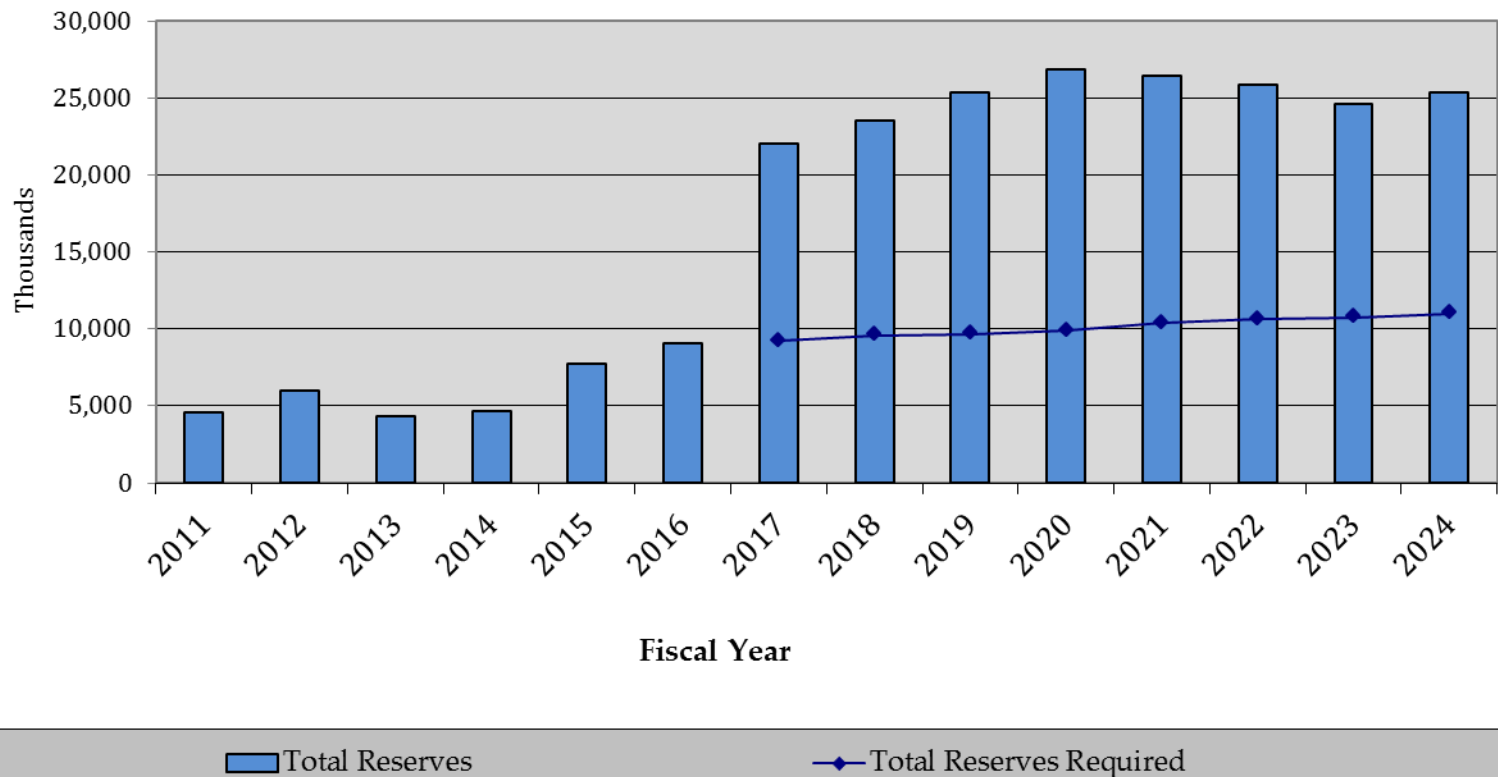
Reserves – Combined



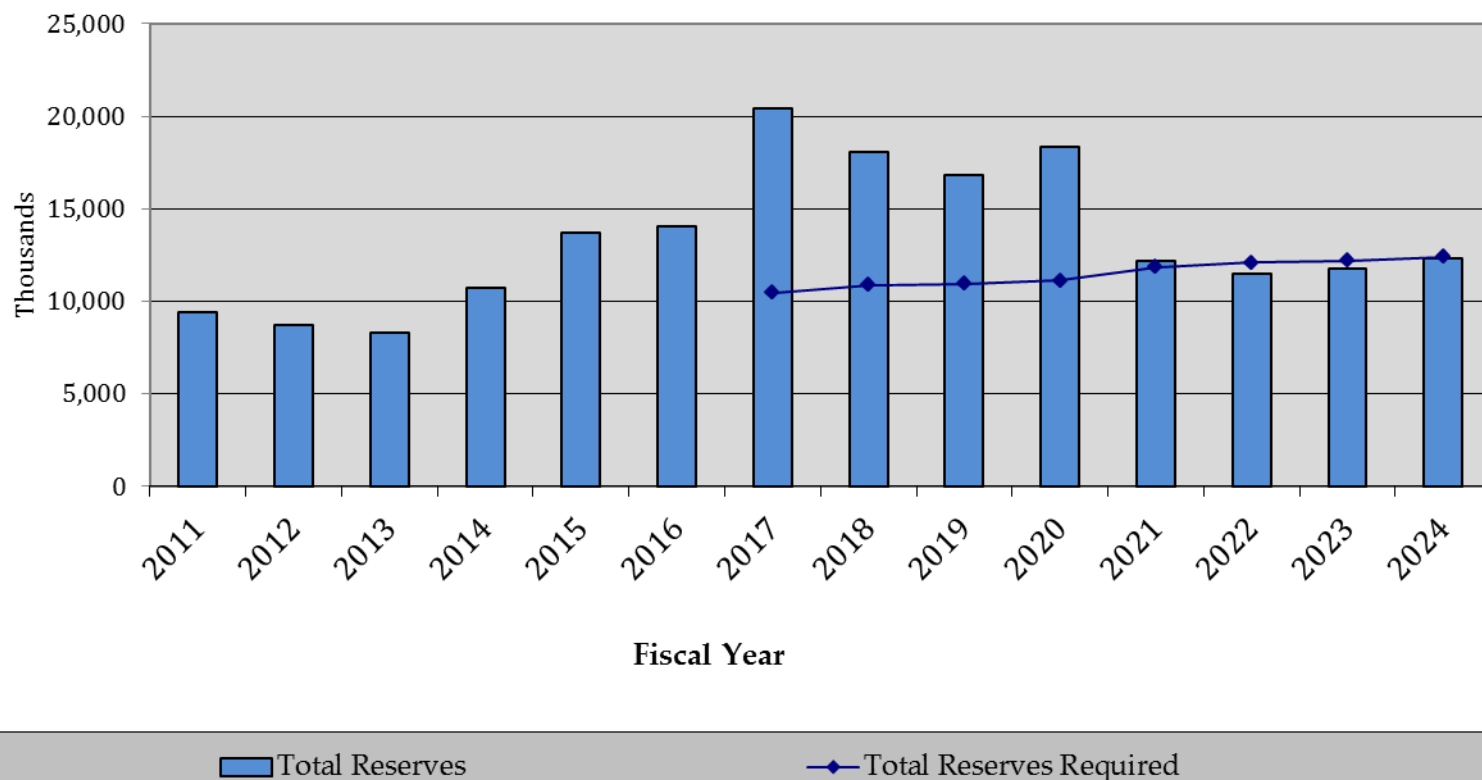
Reserves – Electric



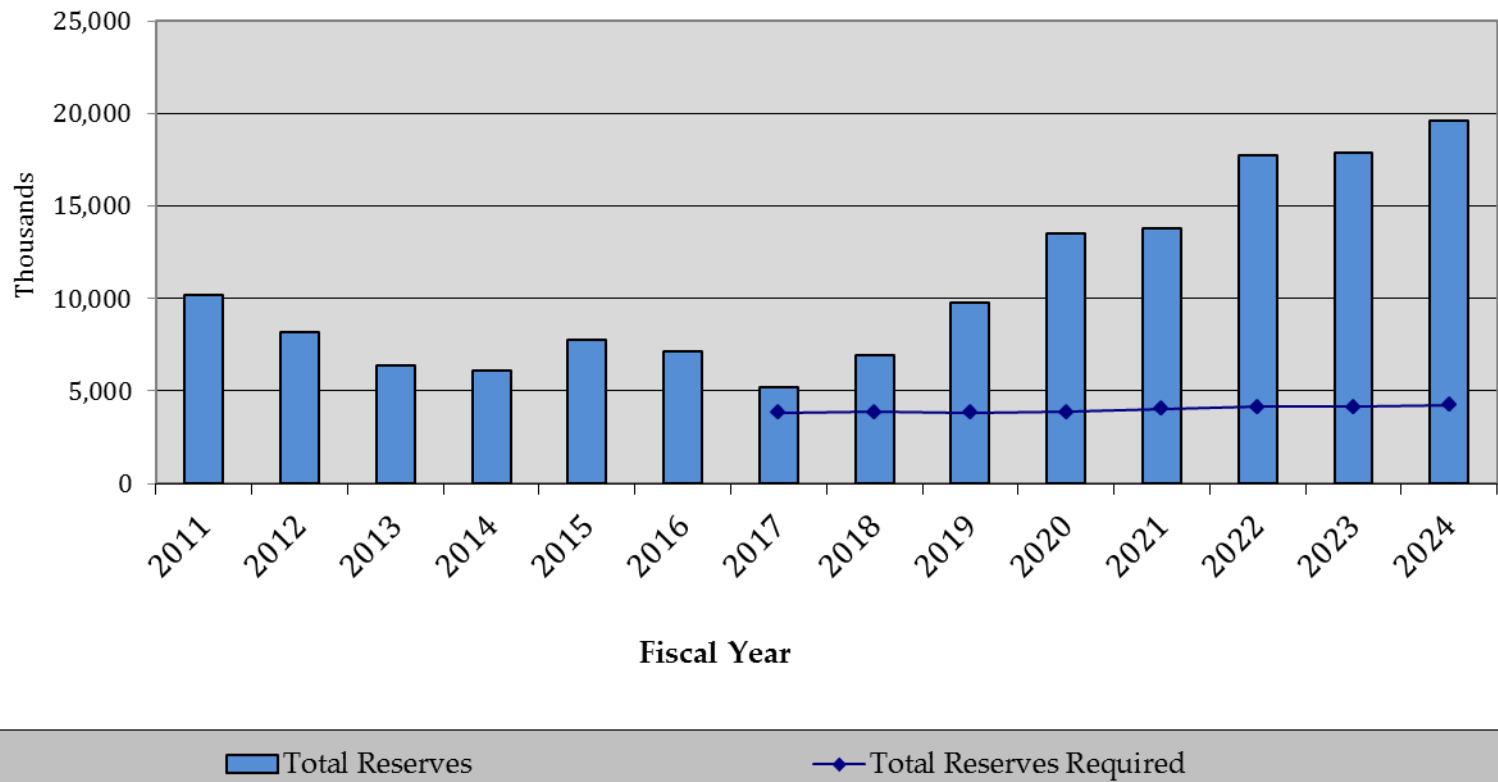
Reserves – Water



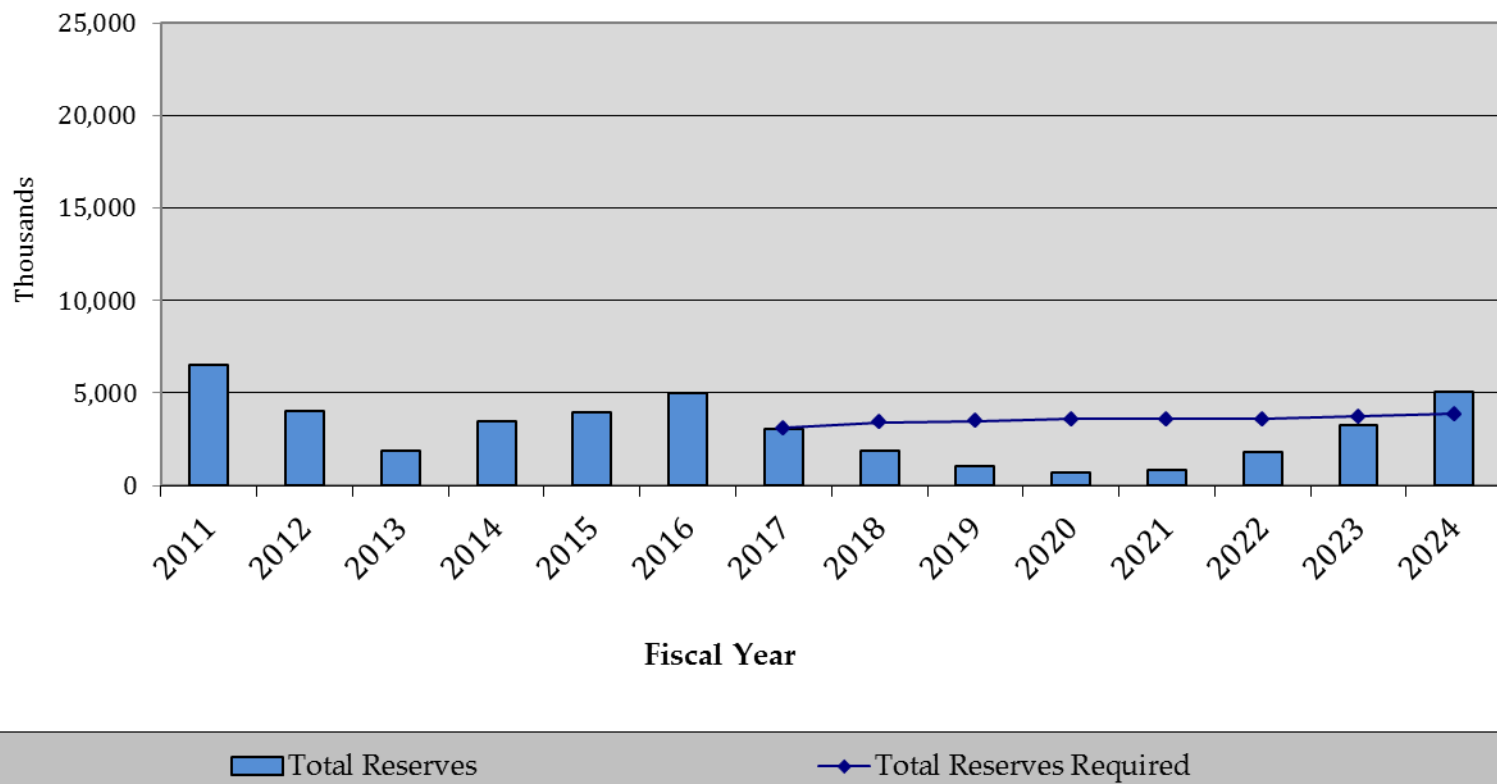
Reserves – Wastewater



Reserves – Gas



Reserves – GRUCom

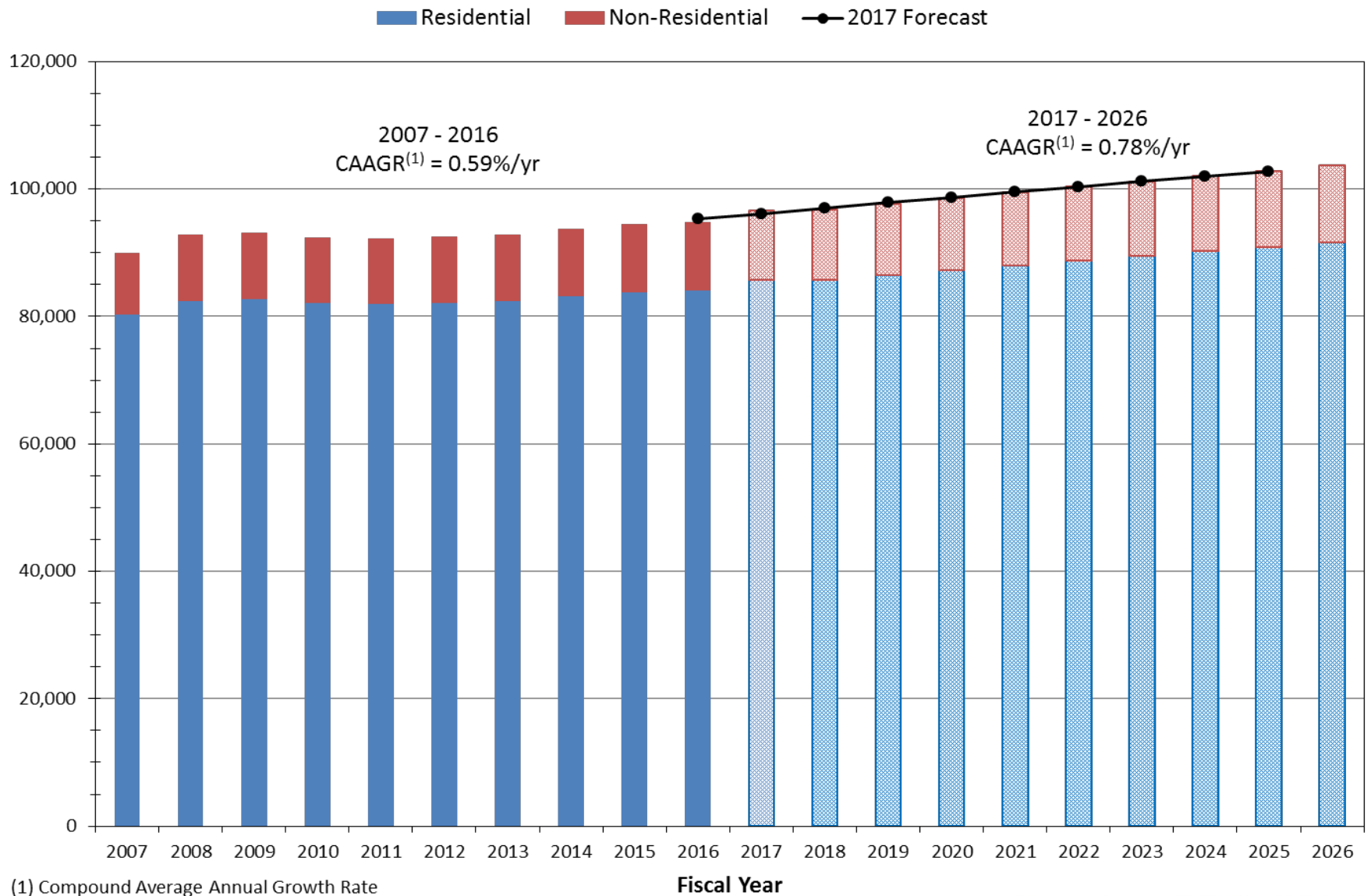


FORECASTS

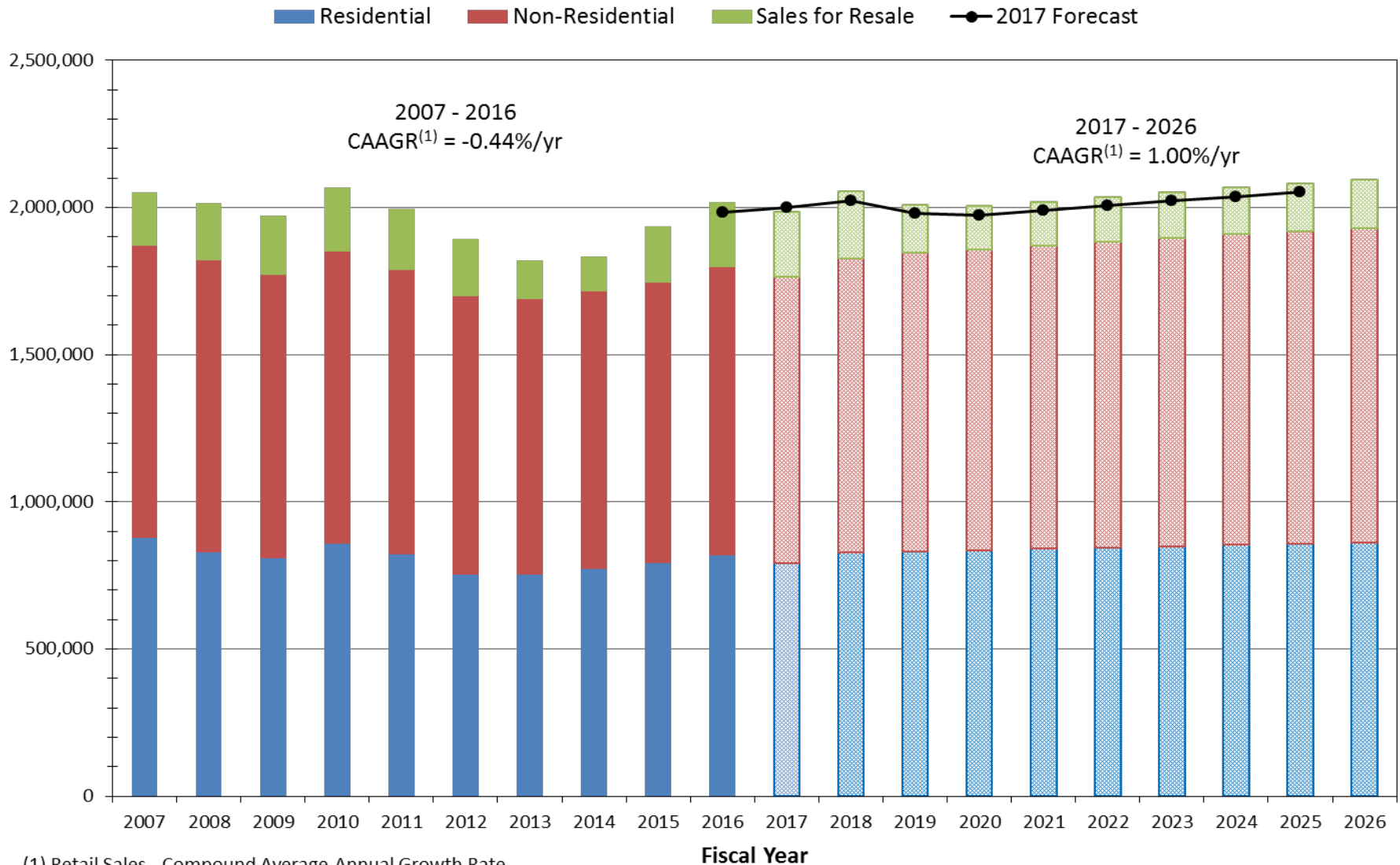
Forecast Overview

- Econometric approach used to develop projections of number of customers, unit sales, and revenues
- GRU Billing Records and System Logs
- Demographics: Bureau of Economic and Business Research
- Economics: IHS Global Insight
- Temperatures and Rainfall: National Weather Service – Gainesville Regional Airport
- Uses of the Forecasts: Budgeting, Facilities Planning, and Regulatory Reporting

Electric Customers

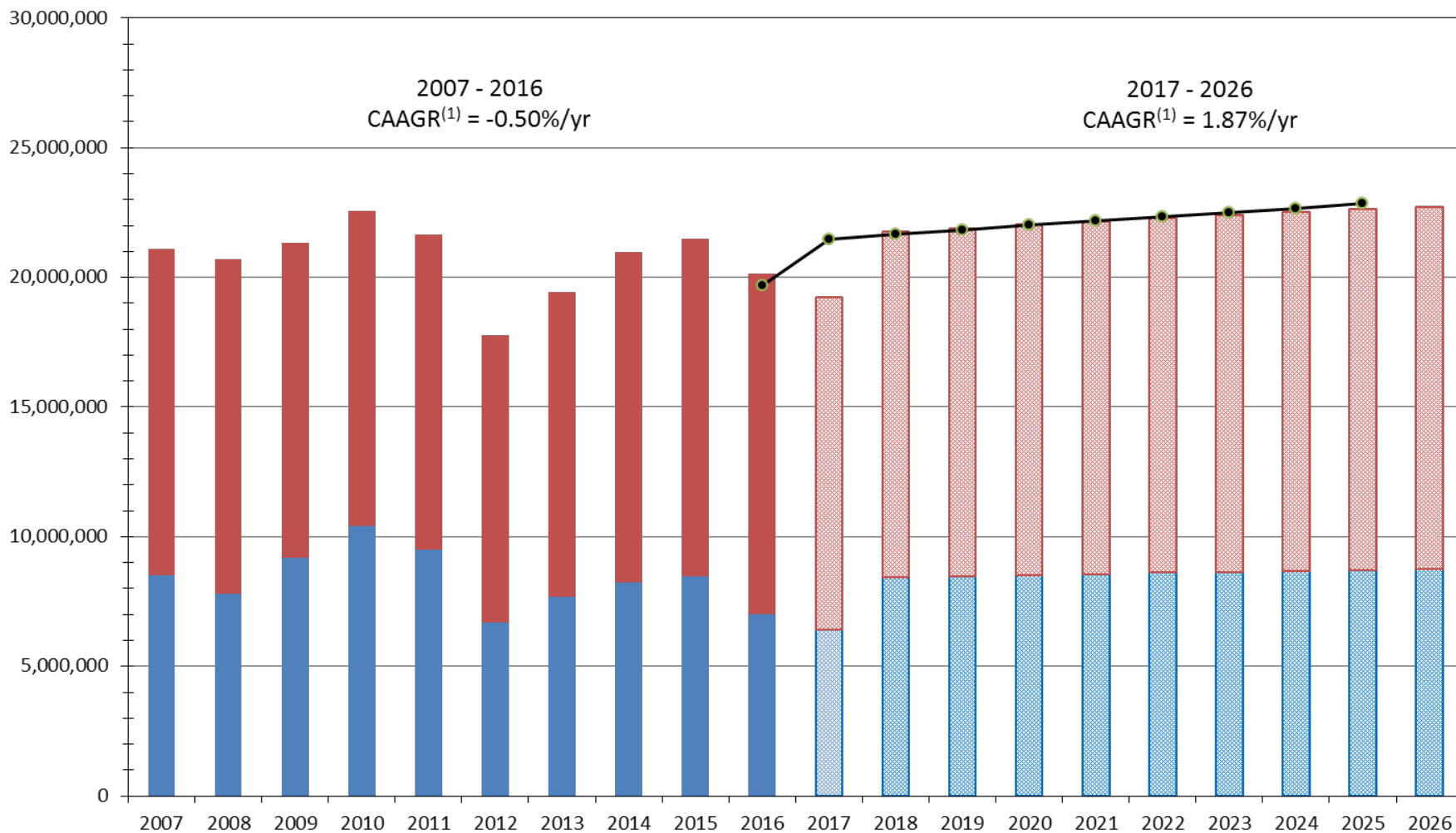


Electric Energy Sales MegaWatt-hours



Natural Gas Energy Sales Therms

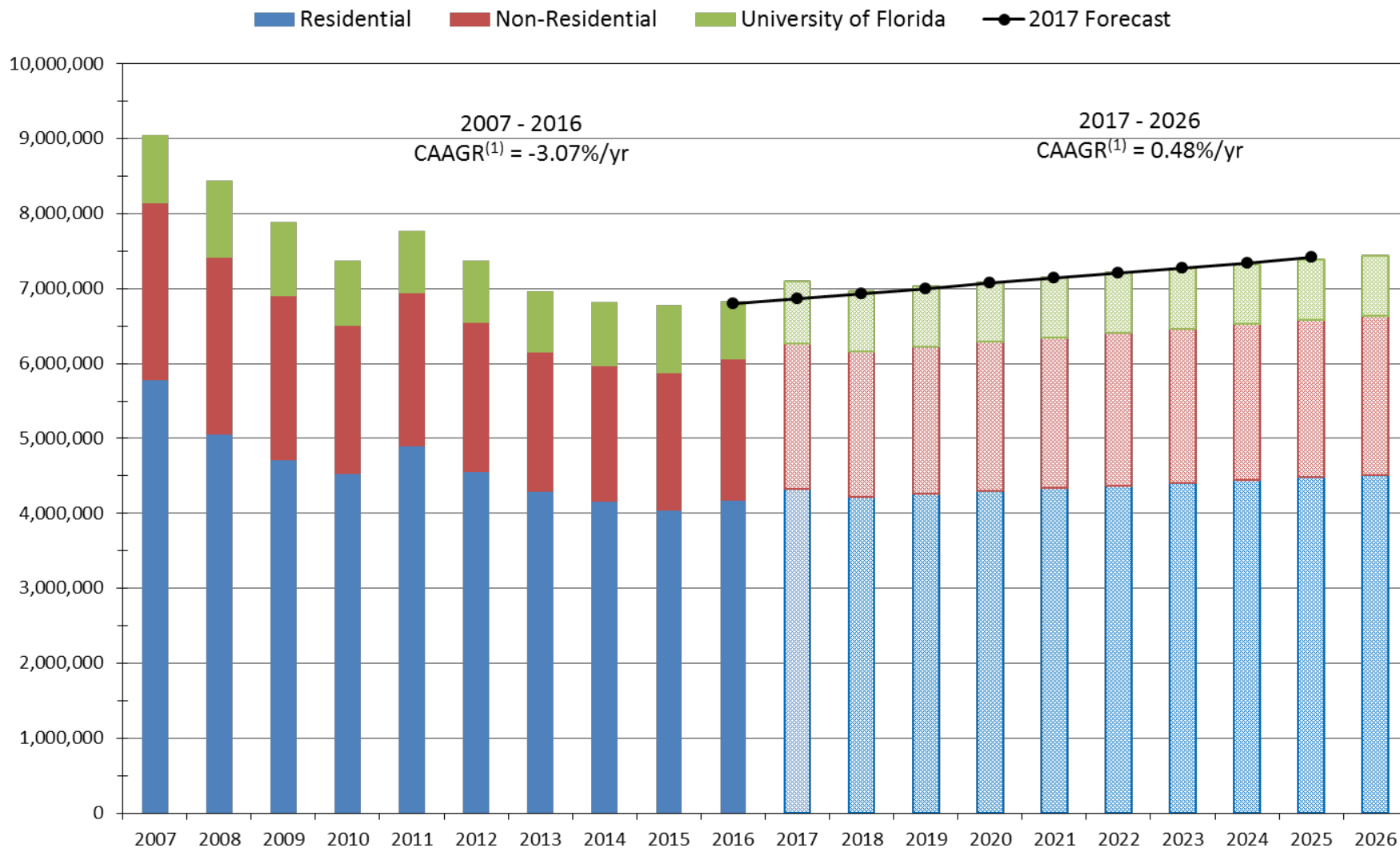
Residential Non-Residential 2017 Forecast



(1) Compound Average Annual Growth Rate

Fiscal Year

Water Sales Thousand Gallons (kgal)

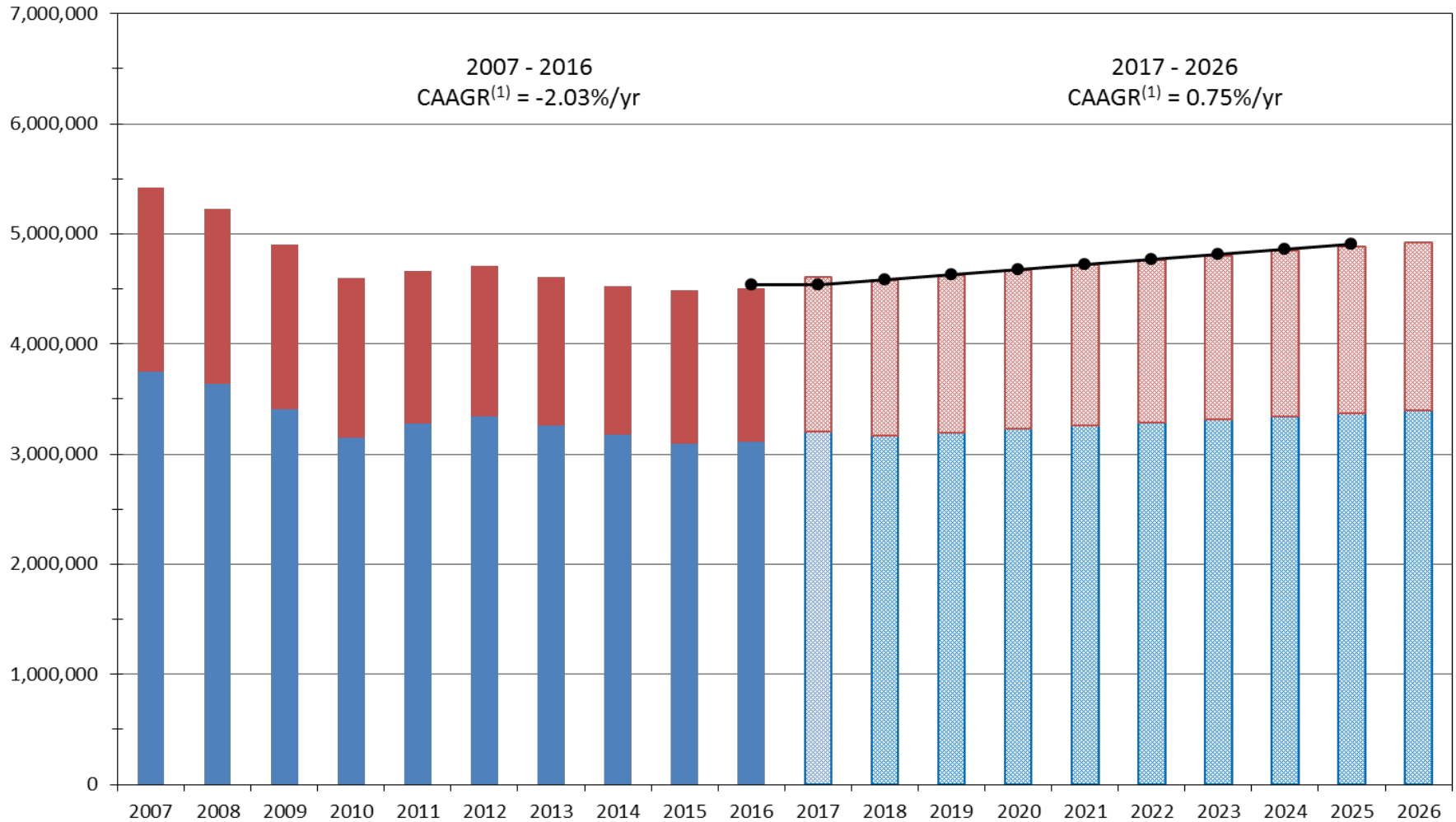


(1) Compound Average Annual Growth Rate

Fiscal Year

Wastewater Billings Thousand Gallons (kgal)

Residential Non-Residential 2017 Forecast

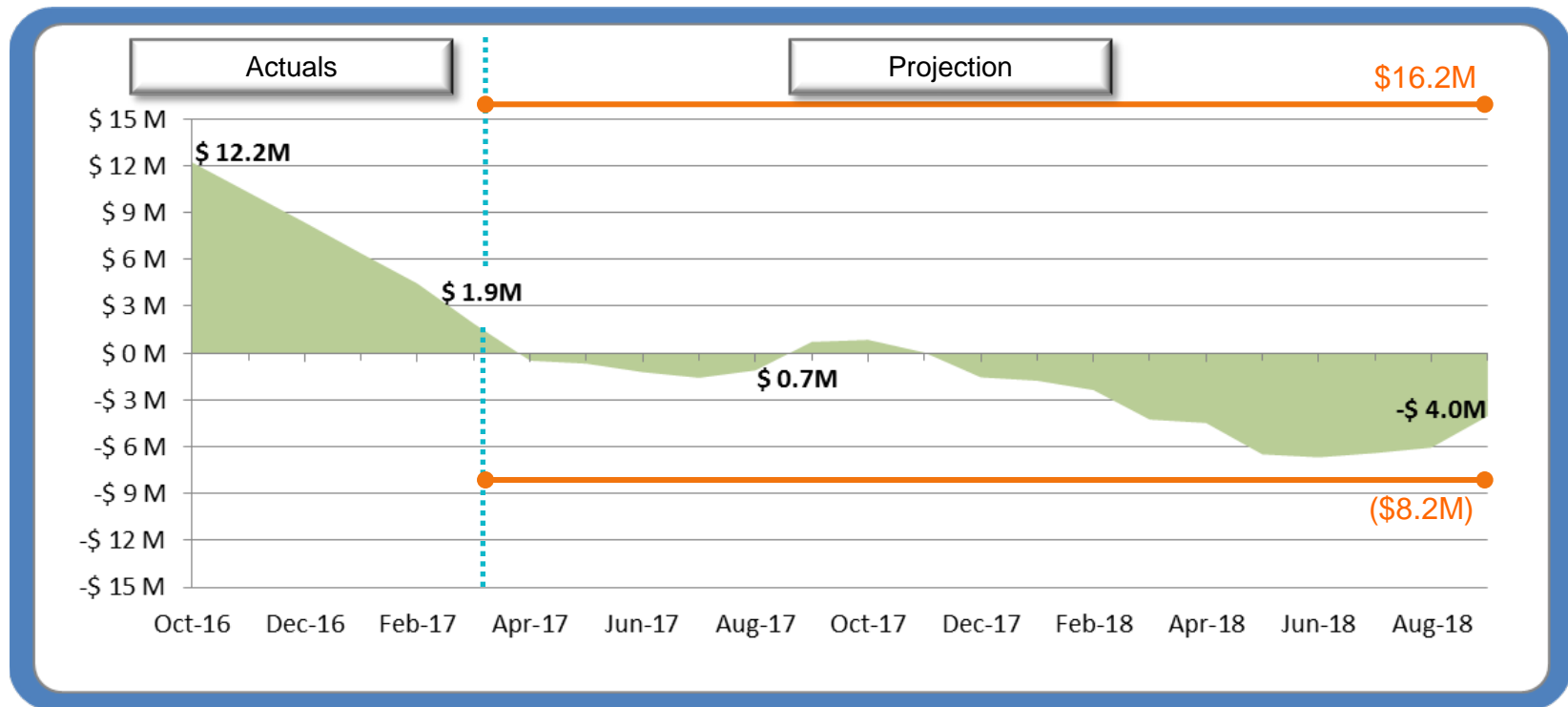


(1) Compound Average Annual Growth Rate

Fiscal Year

RATES AND CHARGES

Levelization Balance FY16 and FY17 Actual/Projections with +10% \$16.2M/-5% Band (\$8.2M)



**based on a FA rate increase from 70 Mills to 75 Mills beginning in Aug 2017*

Fuel Adjustment

- Proposed FY18 fuel adjustment rate \$0.075/kWh
- Levelization balance as of March 31, 2017 \$ 1.9M
- Projected balance as of September 30, 2017 \$ 721K*
- Projected balance as of September 30, 2018 (\$ 4.0M)*
- 10% of FY16 Electric fuel budget \$ 16.3M
- -5% of FY16 Electric fuel budget (\$ 8.2M)

**based on a FA rate increase from 70 Mills to 75 Mills beginning in Aug 2017*

Proposed Electric Pricing

To Meet Two Percent Base Rate Revenue Requirement

Existing	Residential	General Service Non-Demand	General Service Demand	Large Power
Customer Charge (\$/month)	\$14.25	\$29.50	\$100.00	\$300.00
Block 1 Energy Charge (\$/kWh)	\$0.0430	\$0.0690	\$0.0400	\$0.0360
Block 2 Energy Charge (\$/kWh)	\$0.0640	\$0.1000	N/A	N/A
Demand Charge (\$/kW)	N/A	N/A	\$8.50	\$8.50
Proposed	Residential	General Service Non-Demand	General Service Demand	Large Power
Customer Charge (\$/month)	\$14.25	\$29.50	\$100.00	\$300.00
Block 1 Energy Charge (\$/kWh)	\$0.0440	\$0.0700	\$0.0412	\$0.0370
Block 2 Energy Charge (\$/kWh)	\$0.0660	\$0.1030	N/A	N/A
Demand Charge (\$/kW)	N/A	N/A	\$8.50	\$8.50

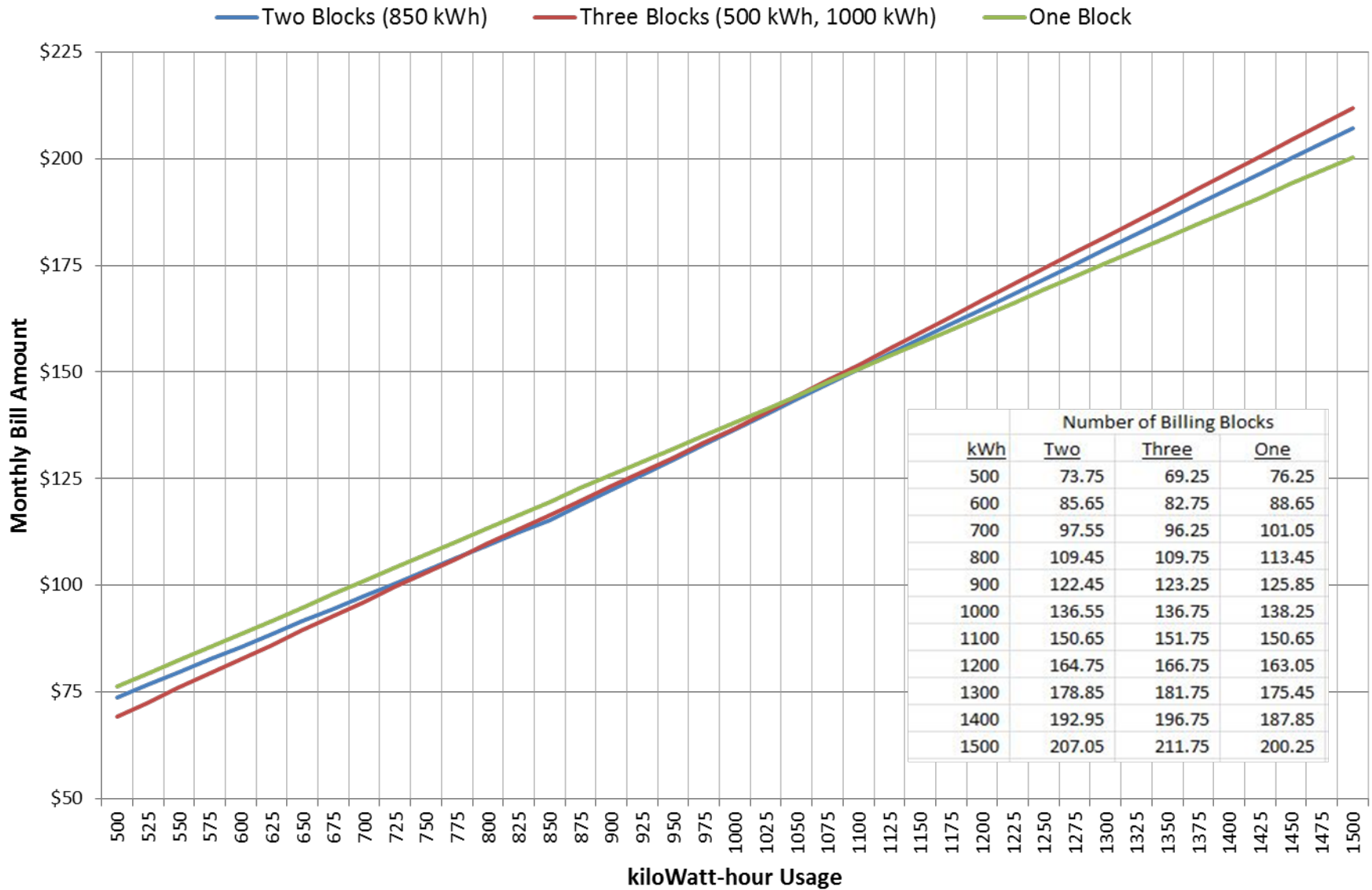
Residential Electric Rate Structure Alternatives

Number of Billing Blocks	Two	Three	One
Customer Charge (\$/month)	\$14.25	\$14.25	\$14.25
Block 1 Energy Charge (\$/kWh)	\$0.044	\$0.035	\$0.049
Block 2 Energy Charge (\$/kWh)	\$0.066	\$0.060	N/A
Block 3 Energy Charge (\$/kWh)	N/A	\$0.075	N/A
Fuel Adjustment Charge	\$0.075	\$0.075	\$0.075
Block 1 Inversion (kWh)	850	500	N/A
Block 2 Inversion (kWh)	N/A	1,000	N/A

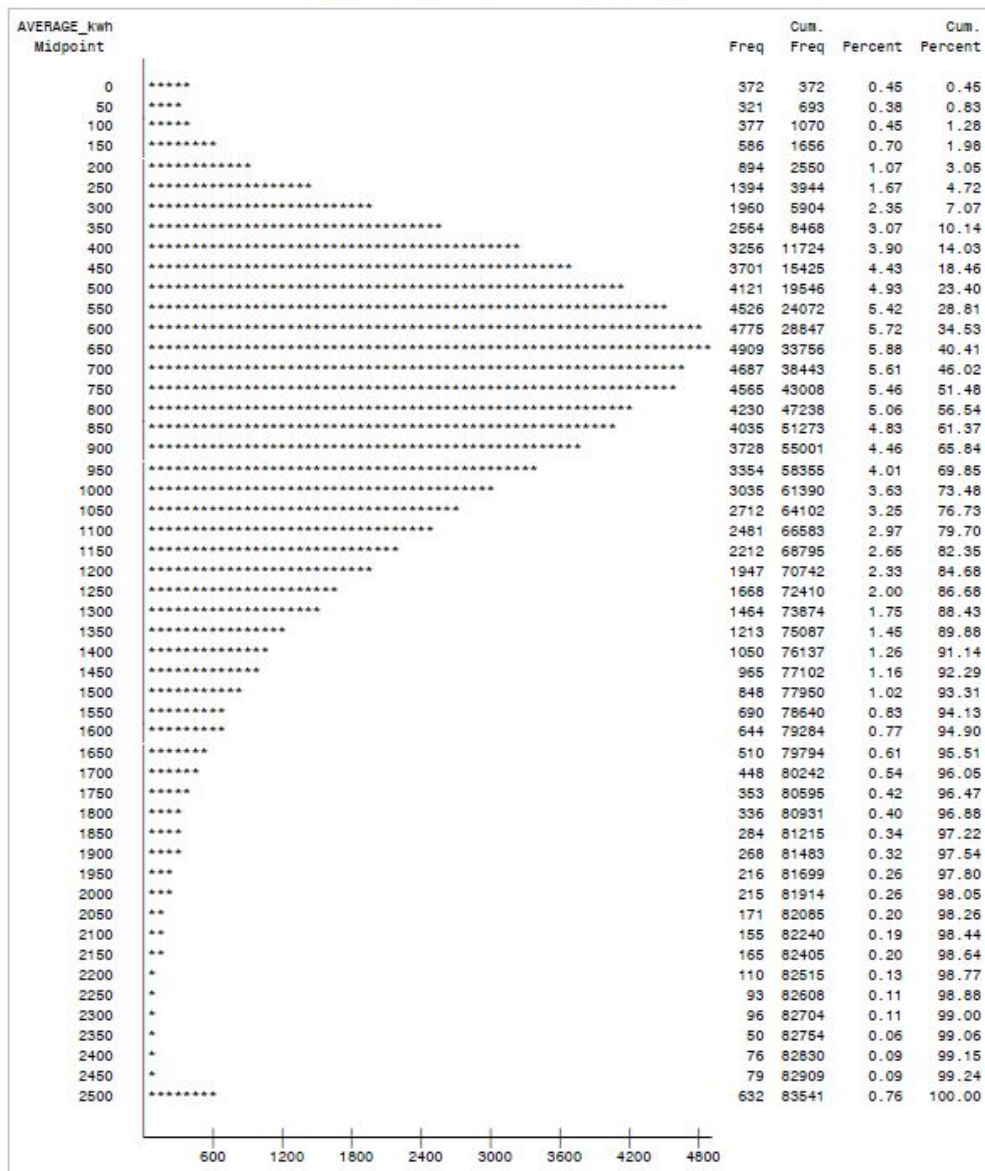
Energy Billed in Each Block

Number of Billing Blocks	Two 850 kWh	Three 500 kWh, 1000 kWh	One
Block 1	77.41%	54.05%	100.00%
Block 2	22.59%	28.92%	0.00%
<u>Block 3</u>	<u>0.00%</u>	<u>17.03%</u>	<u>0.00%</u>
Total	100.00%	100.00%	100.00%

Residential Electric Bill Amounts



Average Monthly Residential Usage for CY2016



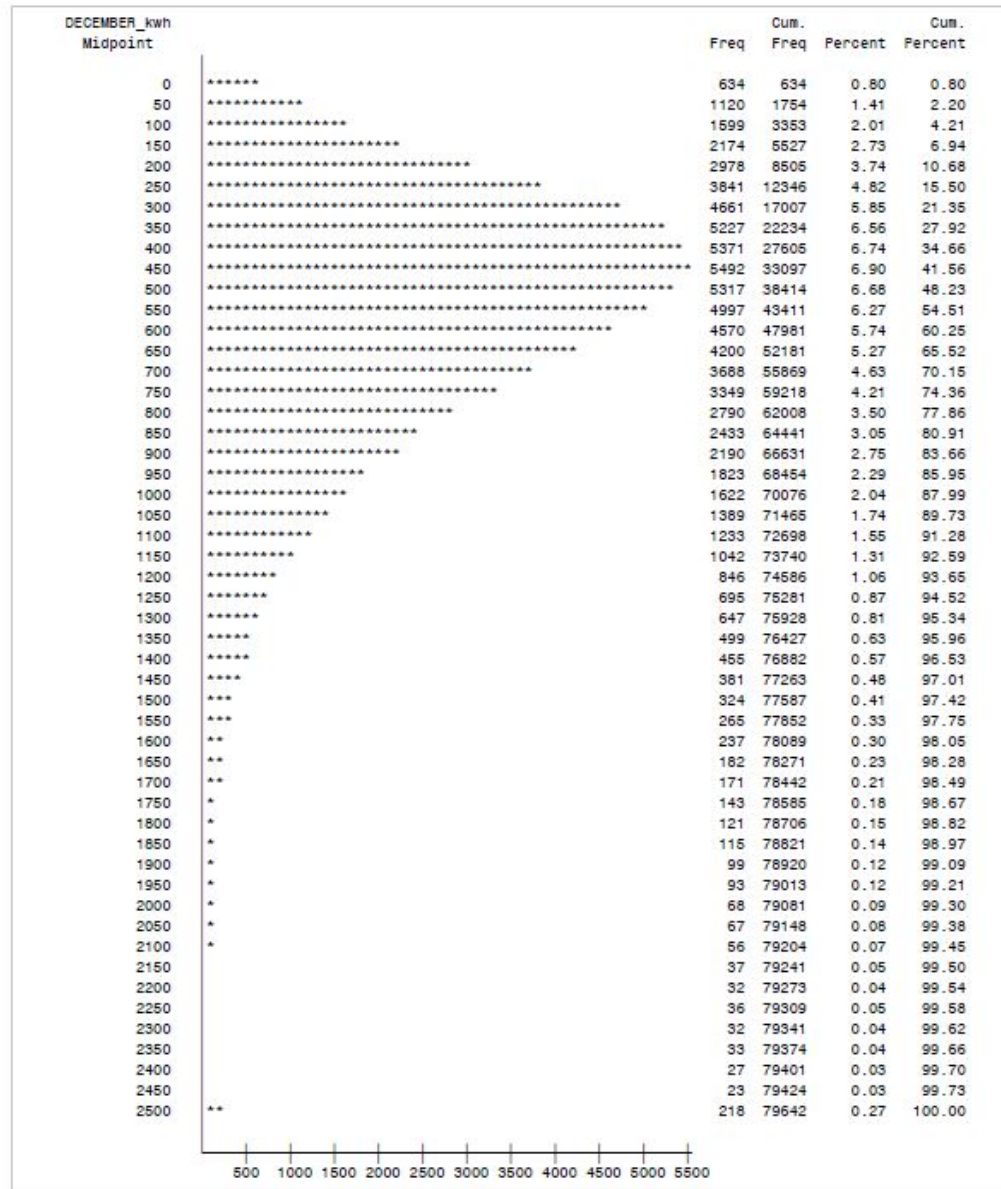
Distribution of Residential Average Monthly Usage During 2016

Average Usage \approx 800 kWh

Median Usage \approx 700 kWh

Cumulative Frequency shows 50th percentile near 750 kWh

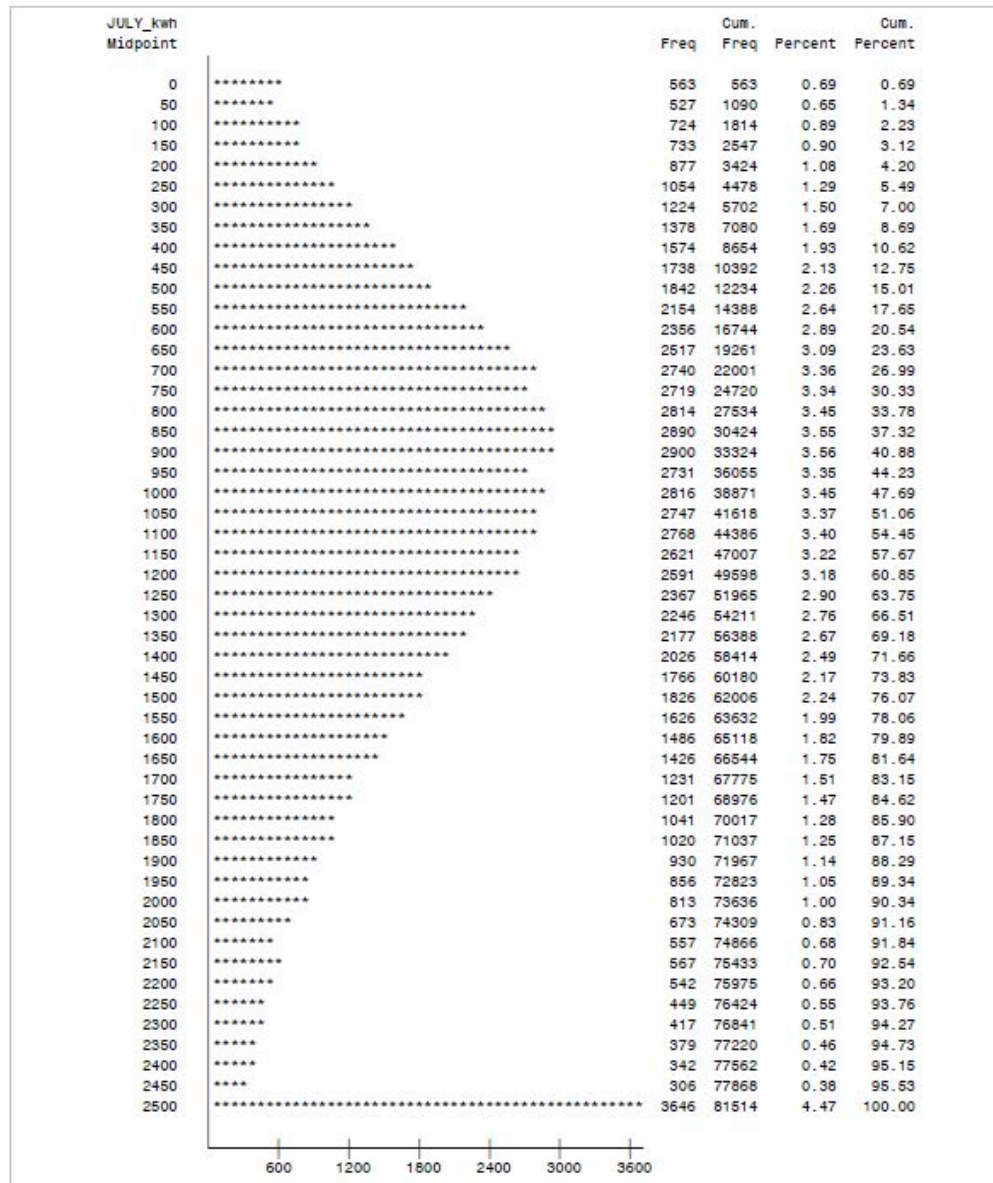
Minimum Month Residential Usage for CY2016



Distribution of Residential Usage December

Cumulative Frequency shows 50th percentile near 500 kWh

Maximum Month Residential Usage for CY2016

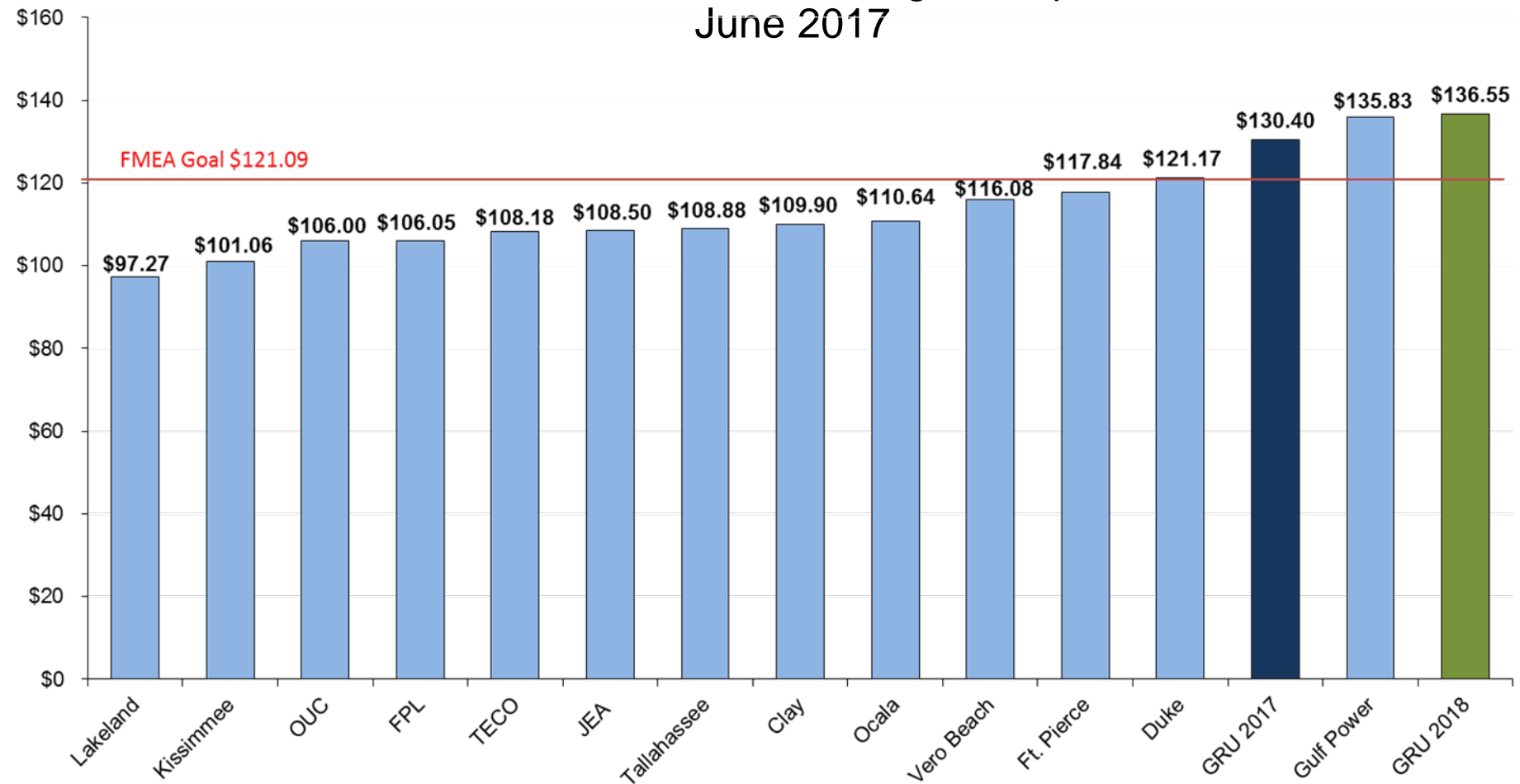


Distribution of Residential Usage July

Cumulative Frequency shows 50th percentile near 1050 kWh

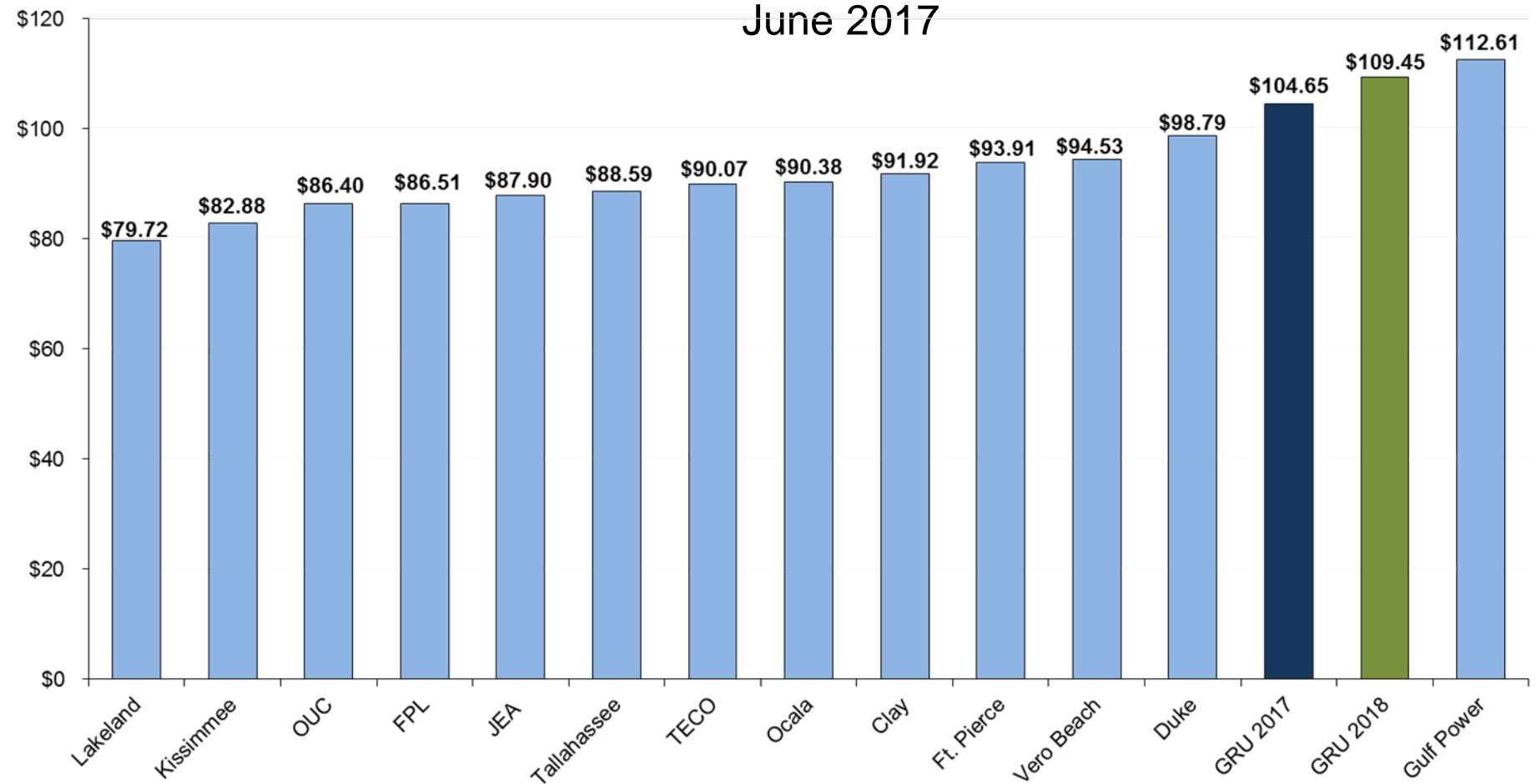
Residential Electric

1,000 KWh – Standard Usage Comparison
June 2017



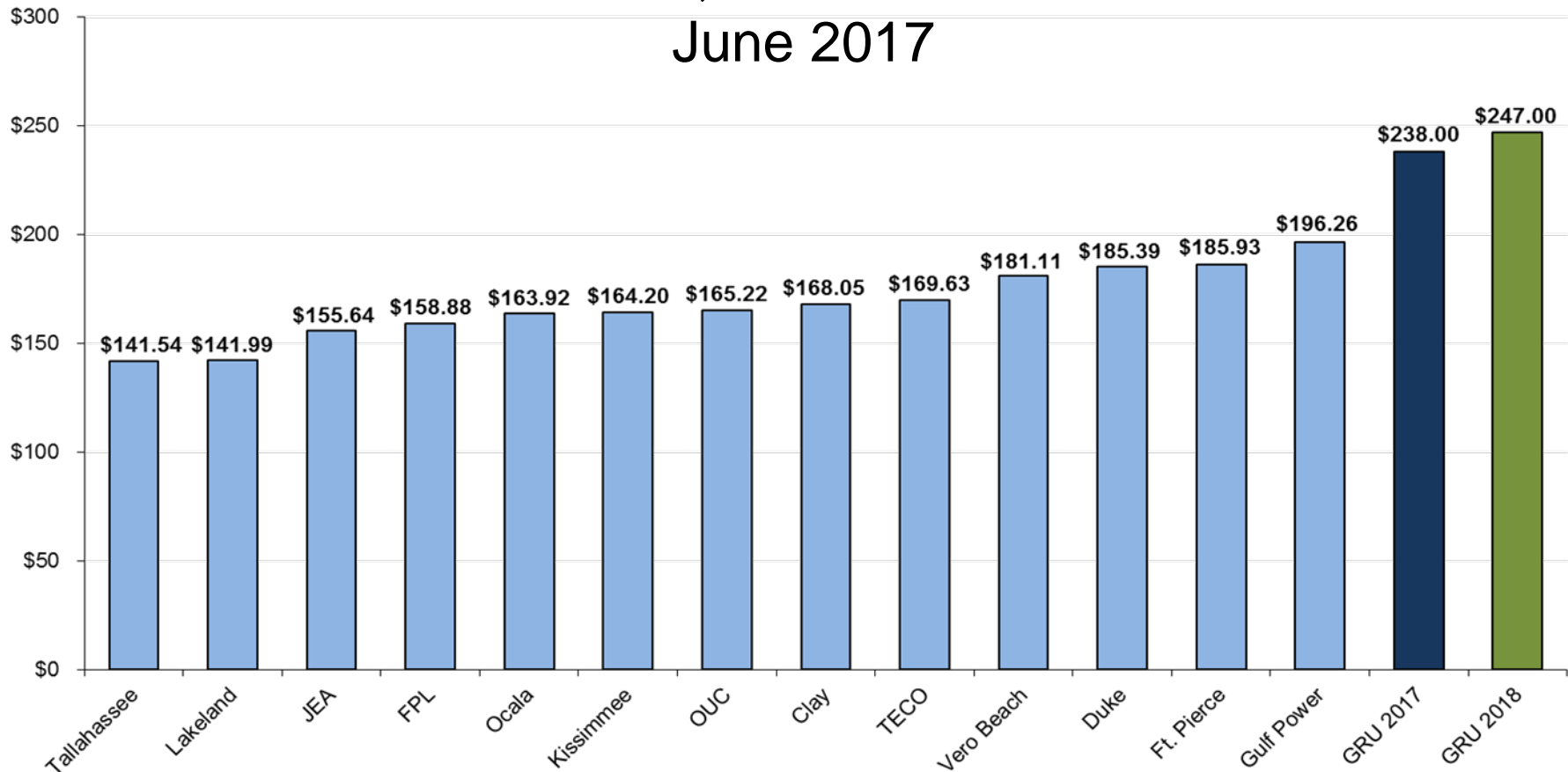
Residential Electric

800 KWh – Average Usage Comparison
June 2017



General Service Non-Demand Electric Bill Comparison

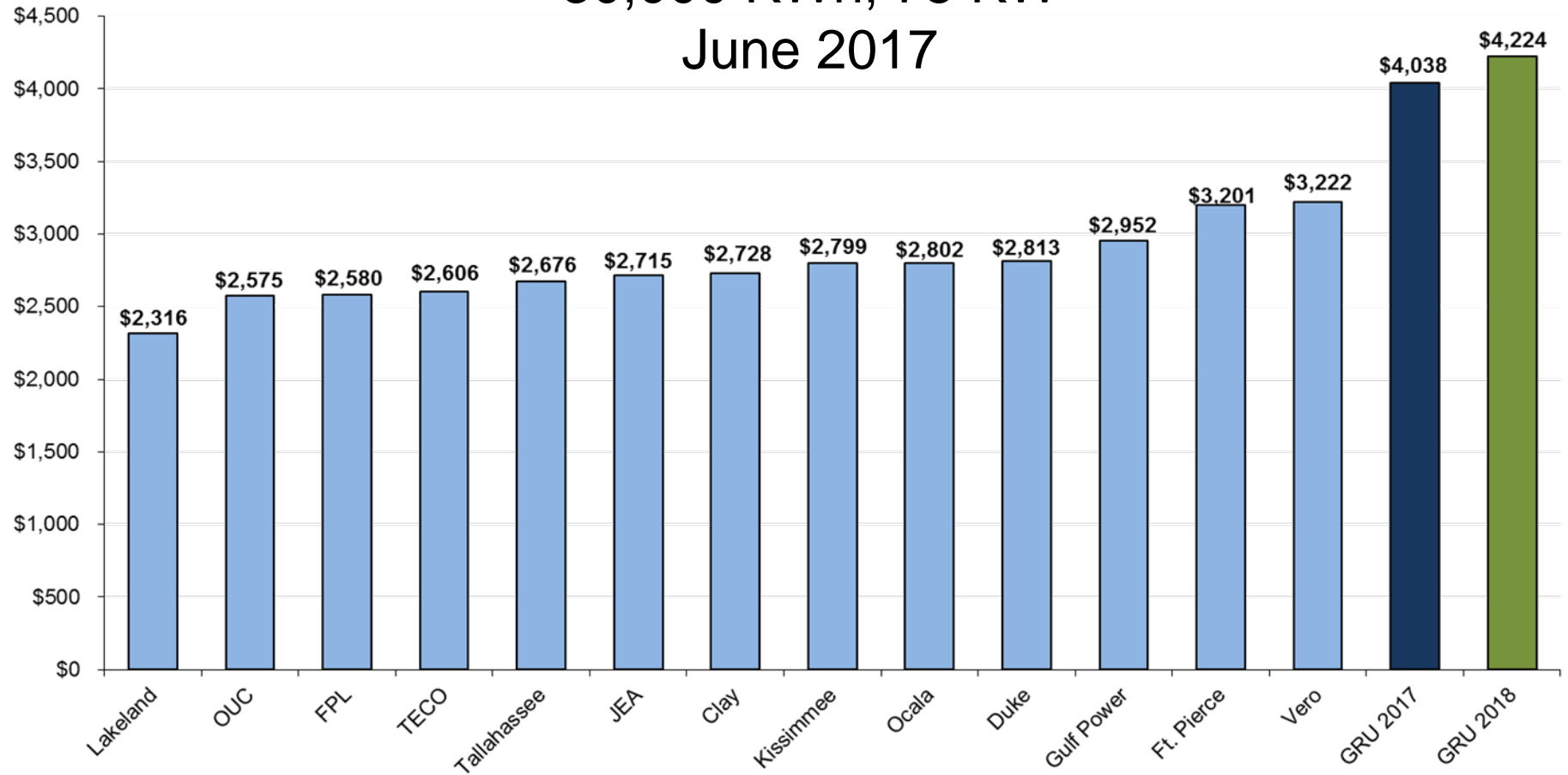
1,500 KWh
June 2017



General Service Demand Electric Bill Comparison

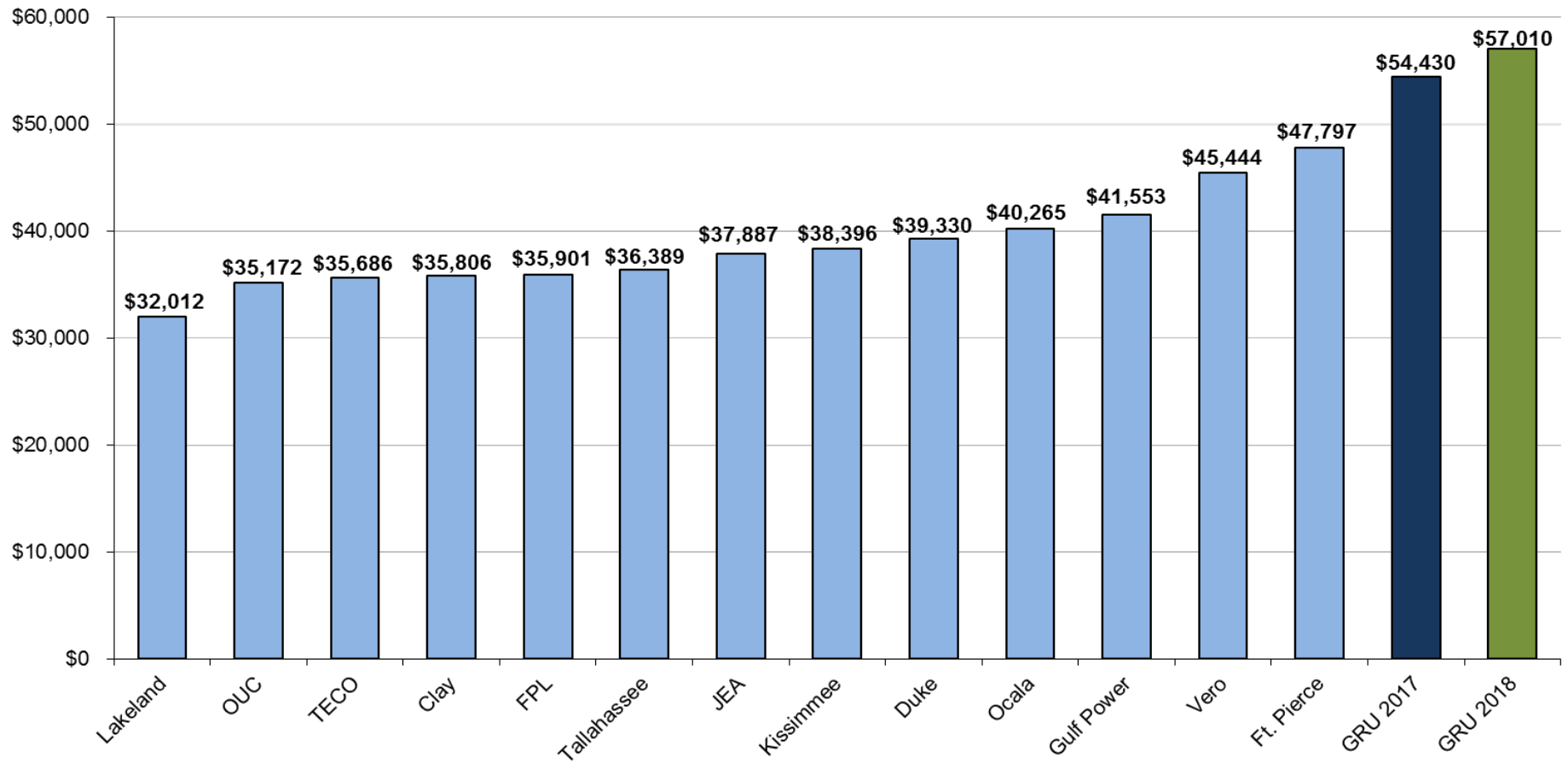
30,000 KWh, 75 KW

June 2017



Large Power Electric Bill Comparison

430,000 KWh, 1,000 KW
June 2017



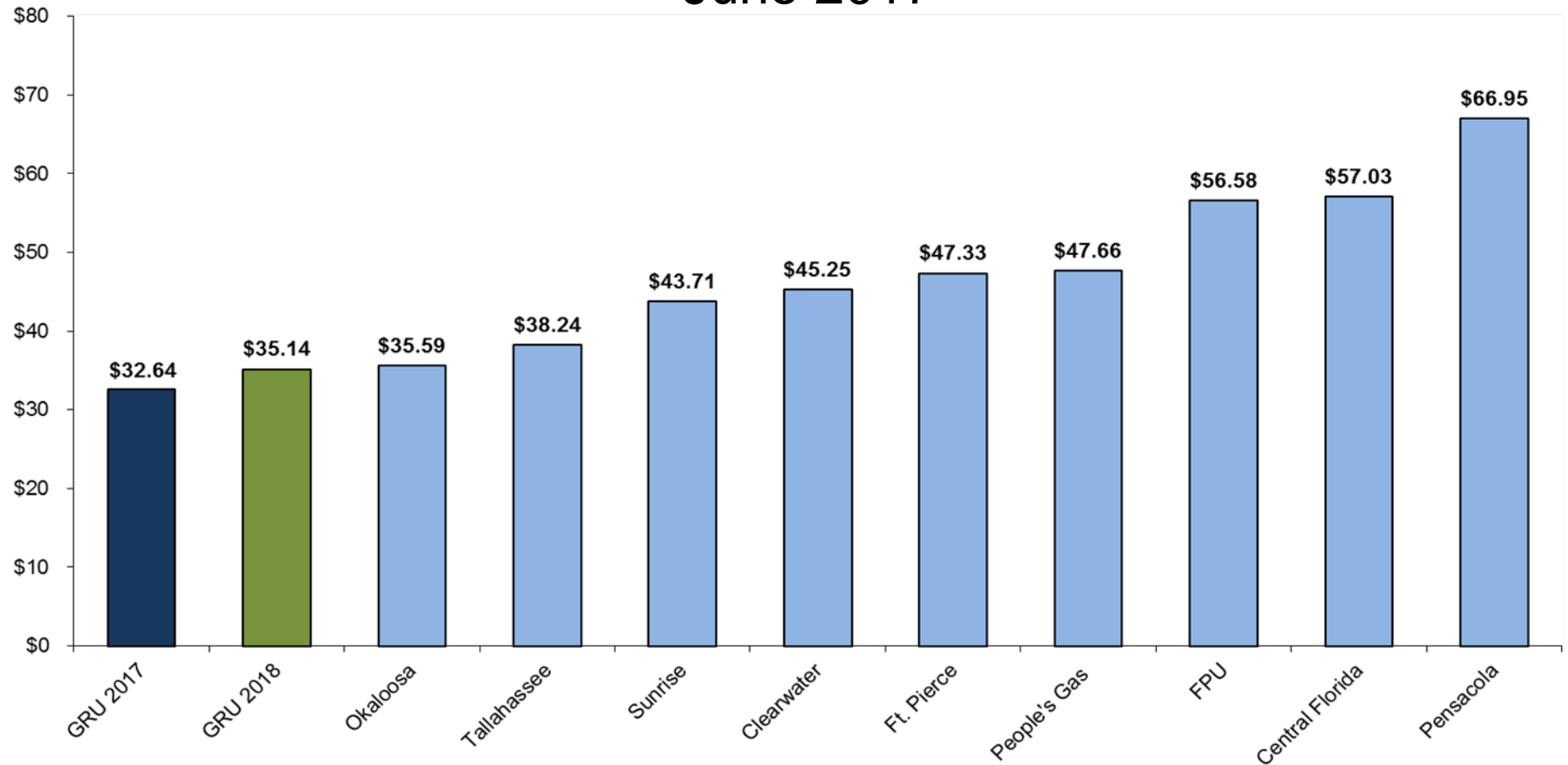
Proposed Residential Natural Gas Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$9.75	No Change
Energy Charge (\$/therm)	\$0.63	No Change
MGPCRIF (Depot Park) (\$/therm)	\$0.0556	No Change
PGA (\$/therm)	\$0.23	\$0.33

Residential Natural Gas Bill Comparison

25 Therms

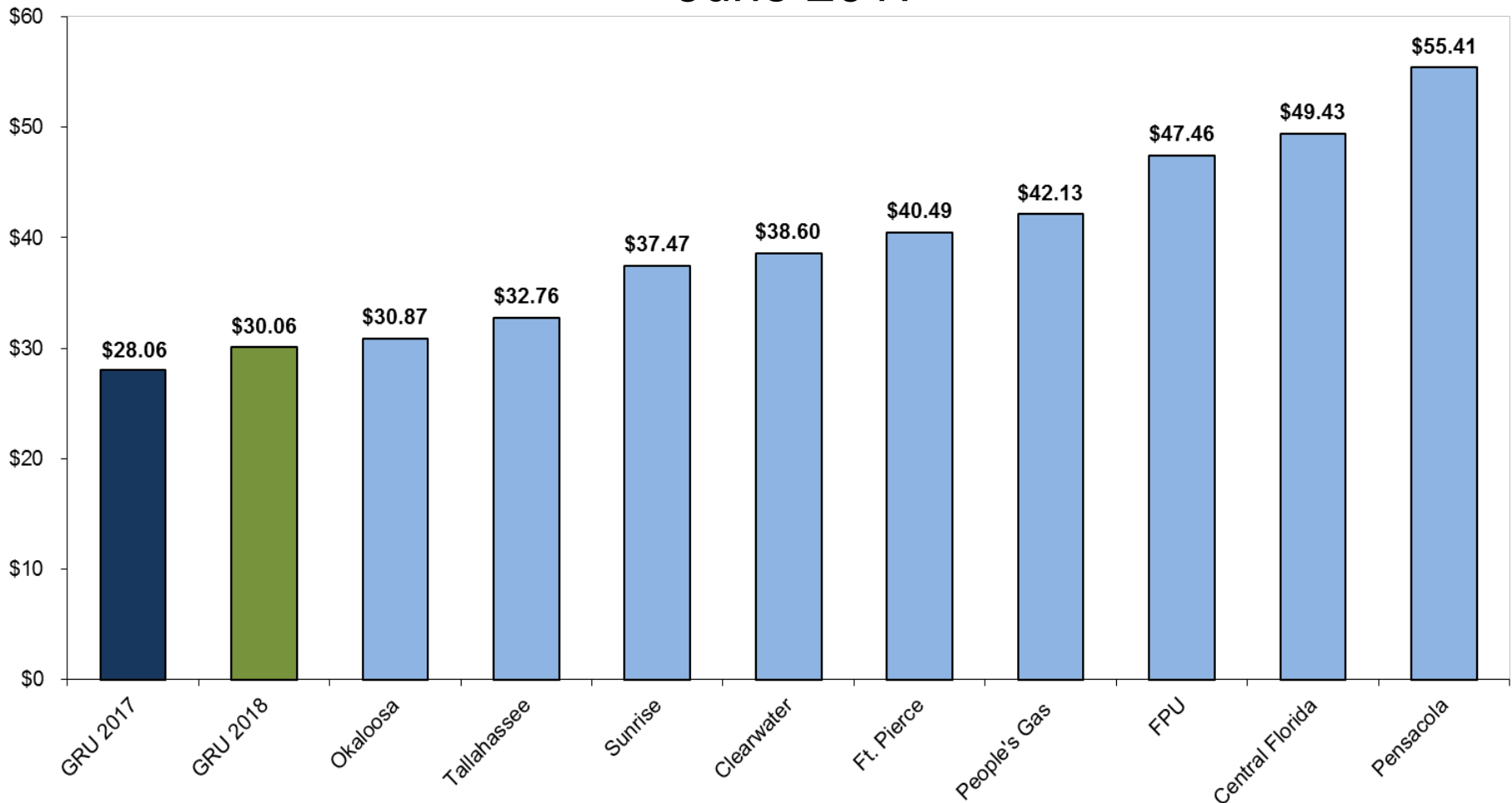
June 2017



Residential Natural Gas Bill Comparison

20 Therms – Average Use

June 2017



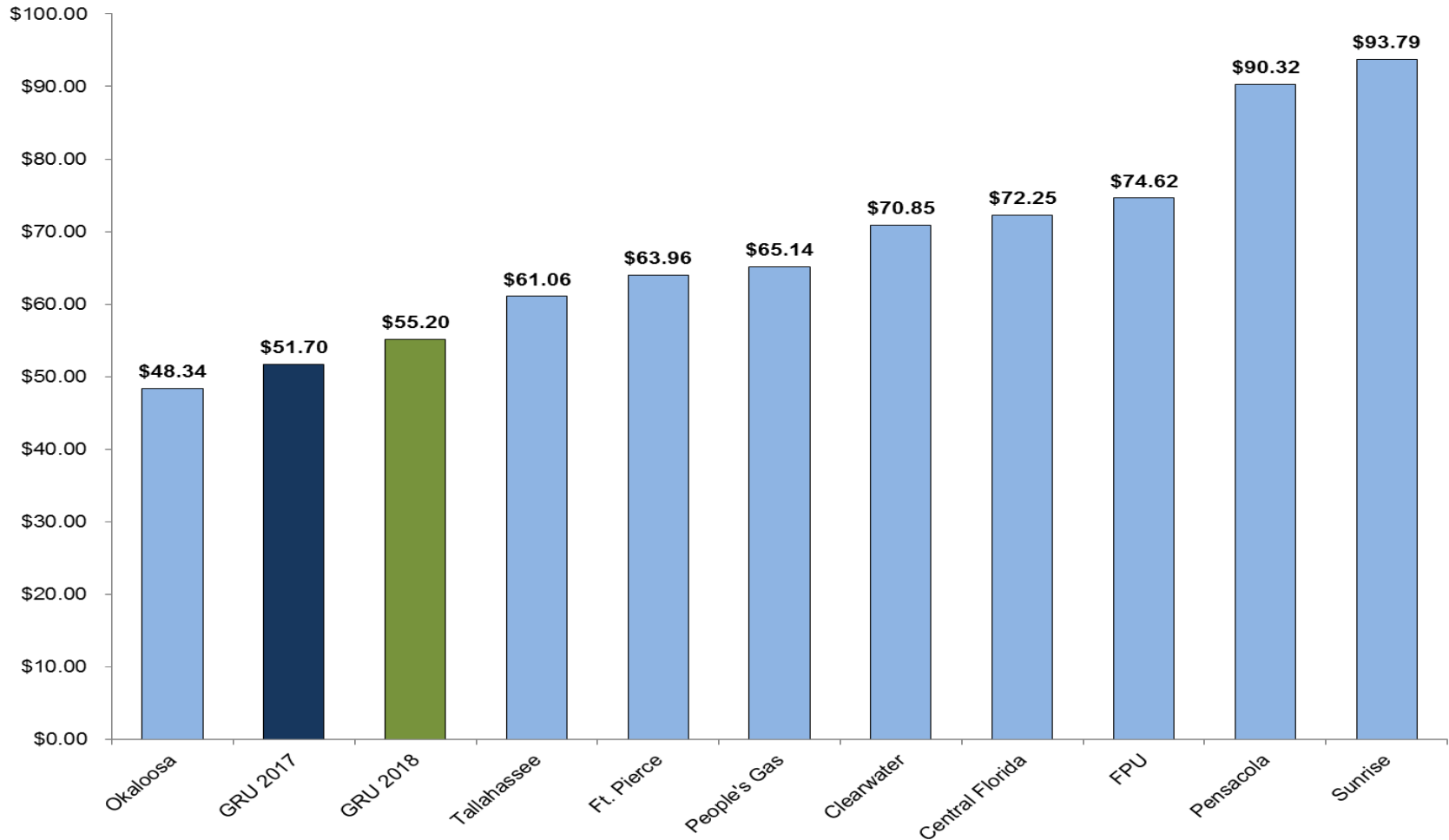
Proposed Small Commercial Natural Gas Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$20.00	No Change
Energy Charge (\$/therm)	\$0.62	No Change
MGPCRIF (Depot Park) (\$/therm)	\$0.0556	No Change
PGA (\$/therm)	\$0.23	\$0.33

Small Commercial Natural Gas Bill Comparison

35 Therms

June 2017



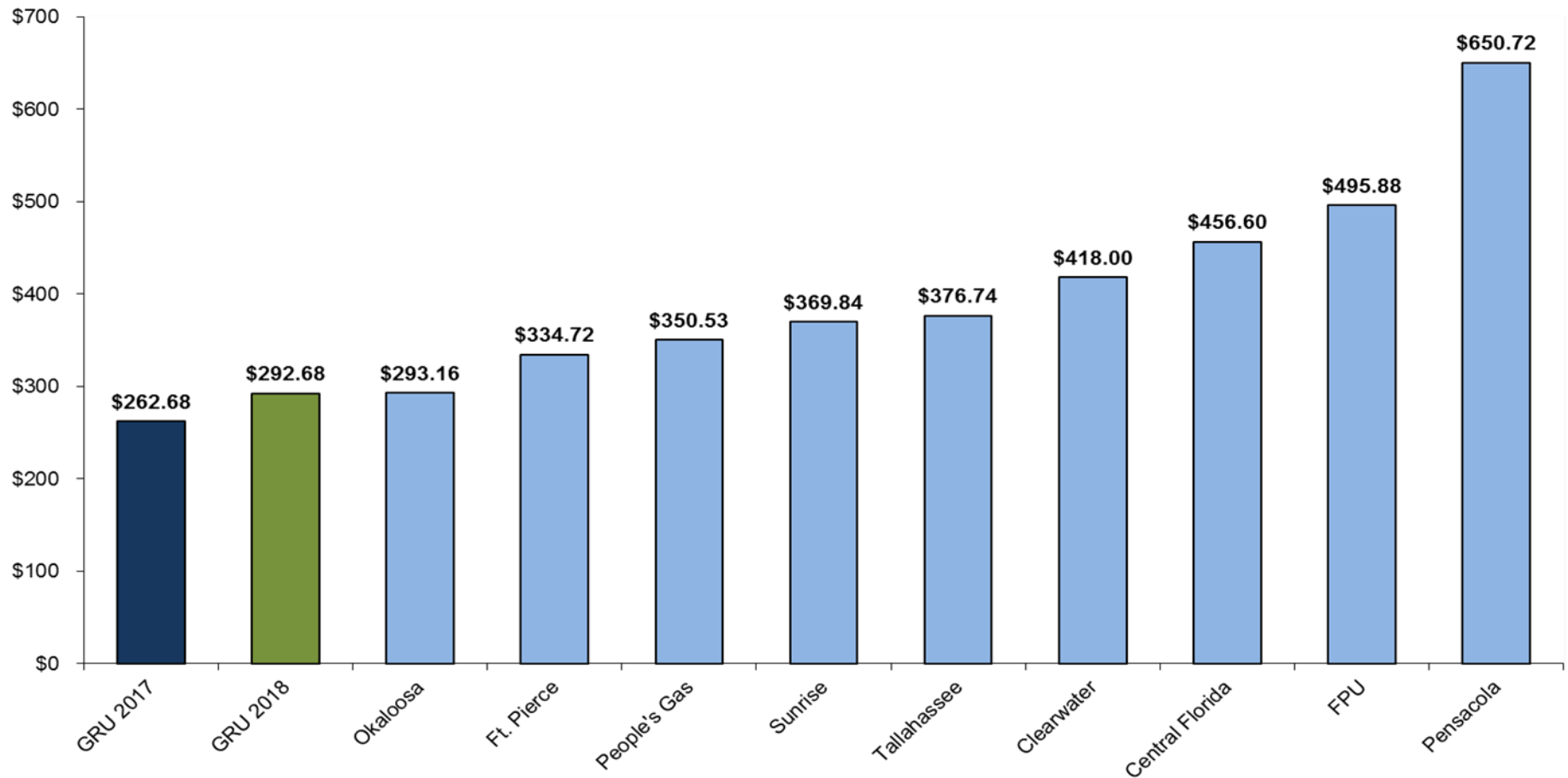
Proposed Commercial Natural Gas Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$45.00	No Change
Energy Charge (\$/therm)	\$0.44	No Change
MGPCRIF (Depot Park) (\$/therm)	\$0.0556	No Change
PGA (\$/therm)	\$0.23	\$0.33

Commercial Natural Gas Bill Comparison

300 Therms

June 2017



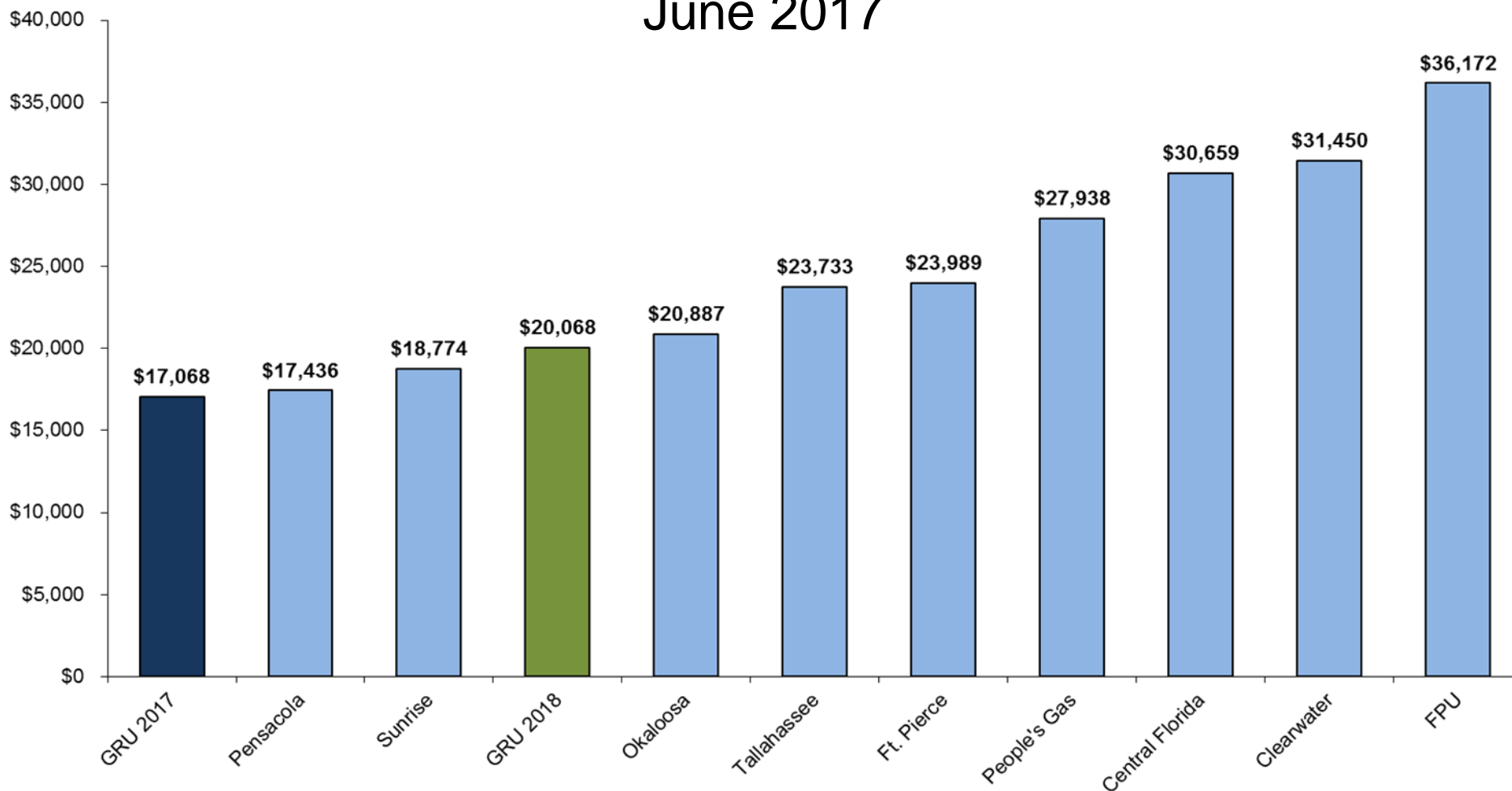
Proposed Commercial Large Volume Natural Gas Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$400.00	No Change
Energy Charge (\$/therm)	\$0.27	No Change
MGPCRIF (Depot Park) (\$/therm)	\$0.0556	No Change
PGA (\$/therm)	\$0.23	\$0.33

Large Volume Natural Gas Bill Comparison

30,000 Therms

June 2017



Proposed Water Monthly Customer Charges Based on Meter Size

Meter Size	2017 Rates	Proposed 2018
5/8" and 3/4"	\$9.45	No Change
1"	\$9.65	No Change
1.5"	\$12.50	No Change
2"	\$20.00	No Change
3"	\$74.00	No Change
4"	\$100.00	No Change
6"	\$140.00	No Change
8"	\$200.00	No Change
10"	\$275.00	No Change

Proposed Residential Water Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge (5/8" or 3/4" meter)	\$9.45	No Change
Usage Charge (\$/1,000 Gallons)		
Tier 1 (0-4,000 Gallons)	\$2.45	No Change
Tier 2 (5,000-16,000 Gallons)	\$3.75	No Change
Tier 3 (over 16,000 Gallons)	\$6.00	No Change

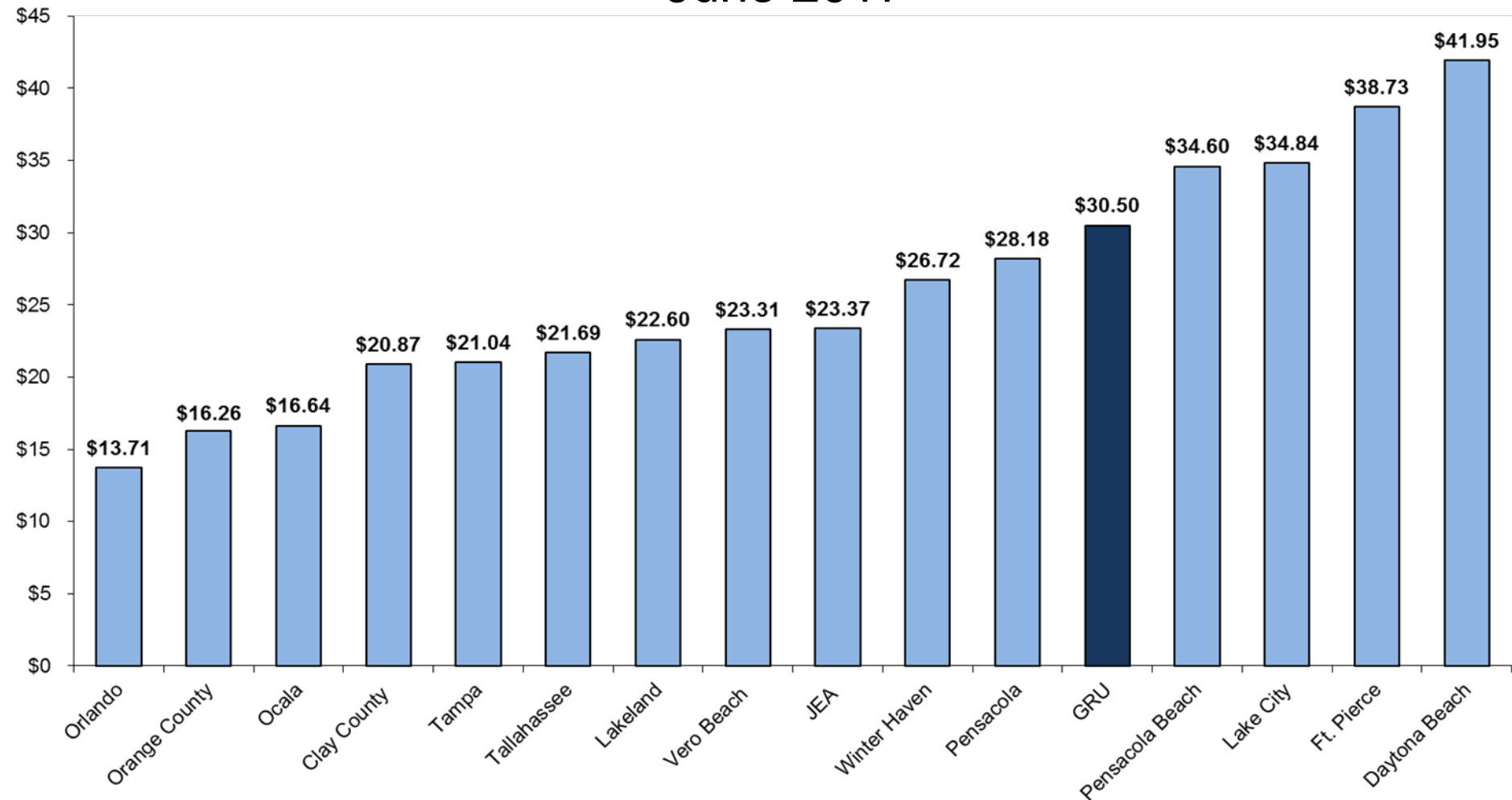
Proposed Residential Irrigation Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge (5/8" or 3/4" meter)	\$9.45	No Change
Usage Charge (\$/1,000 Gallons)		
Tier 1 (0-12,000 Gallons)	\$3.75	No Change
Tier 2 (over 12,000 Gallons)	\$6.00	No Change

Residential Water Bill Comparison

7,000 Gallons

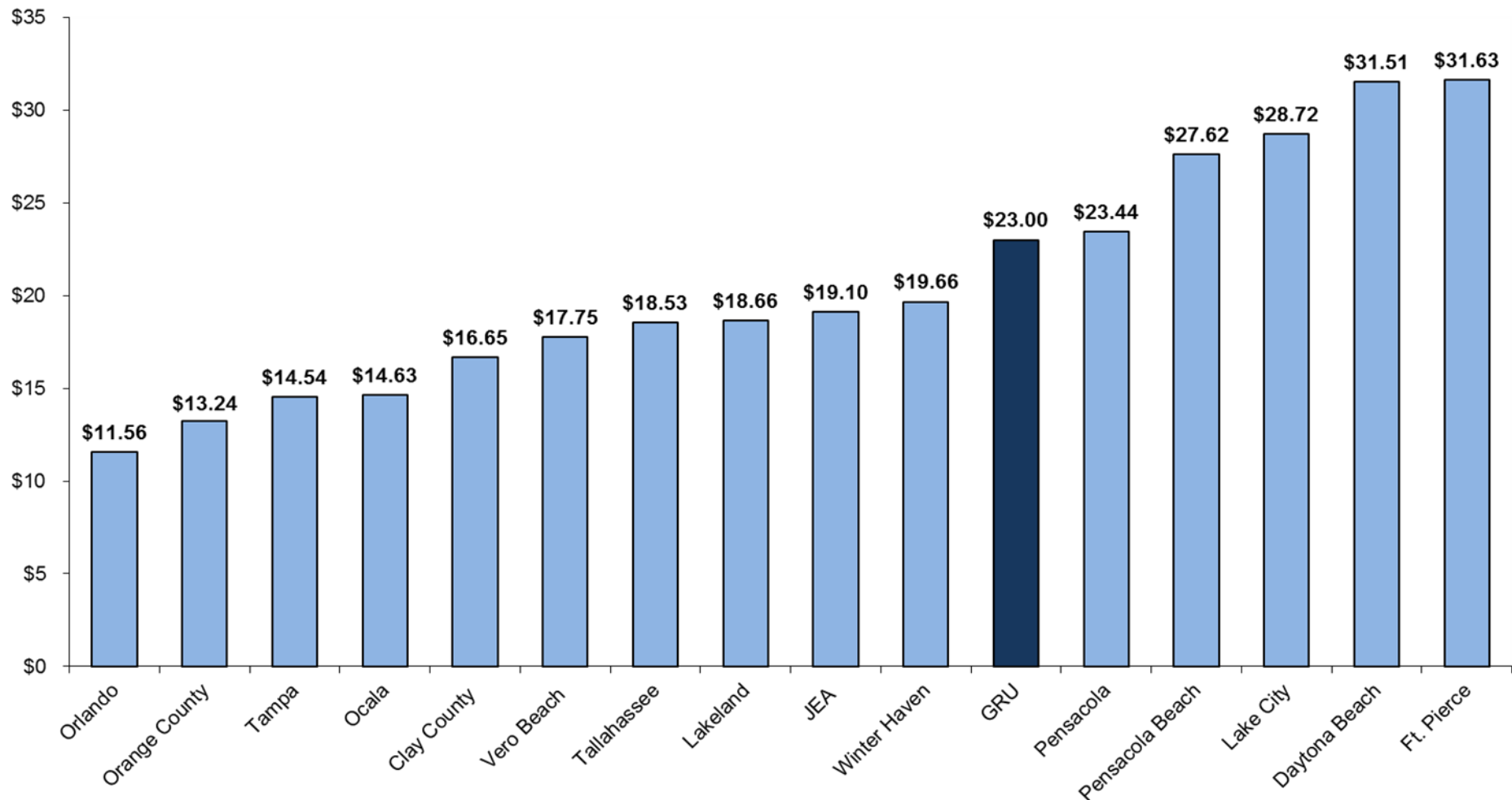
June 2017



Residential Water Bill Comparison

5,000 Gallons – Average Use

June 2017



Proposed Multi-Family Water Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	Based on Meter Size	Based on Meter Size
Usage Charge (\$/1,000 Gallons)	\$3.75	No Change

Proposed Commercial Water Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	Based on Meter Size	Based on Meter Size
Usage Charge (\$/1,000 Gallons)	\$3.85	No Change

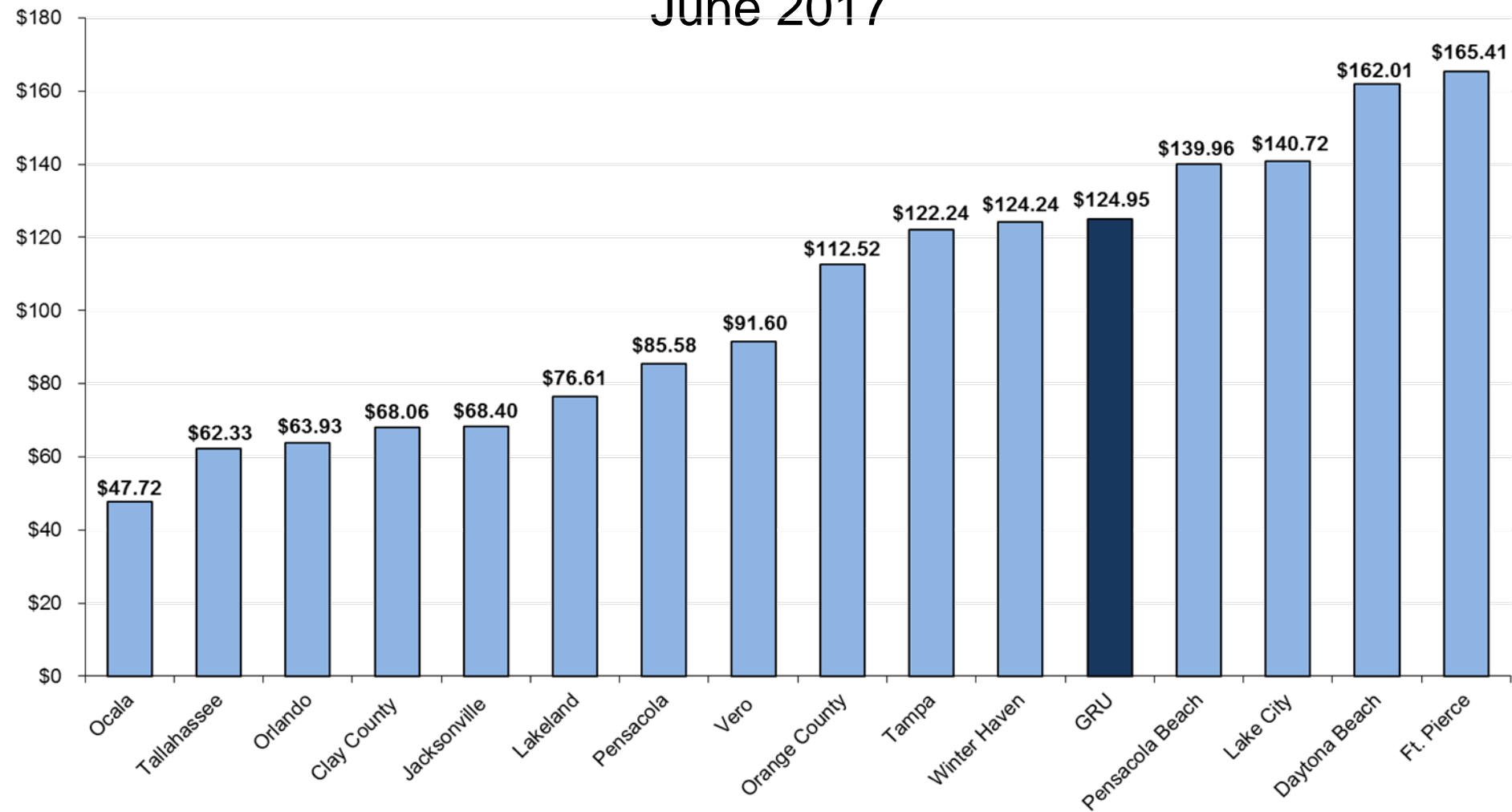
Commercial Irrigation

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	Based on Meter Size	Based on Meter Size
Usage Charge (\$/1,000 Gallons)	\$4.60	No Change

Commercial Water Bill Comparison

30,000 Gallons

June 2017



Based on 5/8" or 3/4" meter

Proposed Residential and Commercial Wastewater Rates

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$9.10	No Change
Billing Charge (\$/1,000 Gallons)	\$6.30	No Change

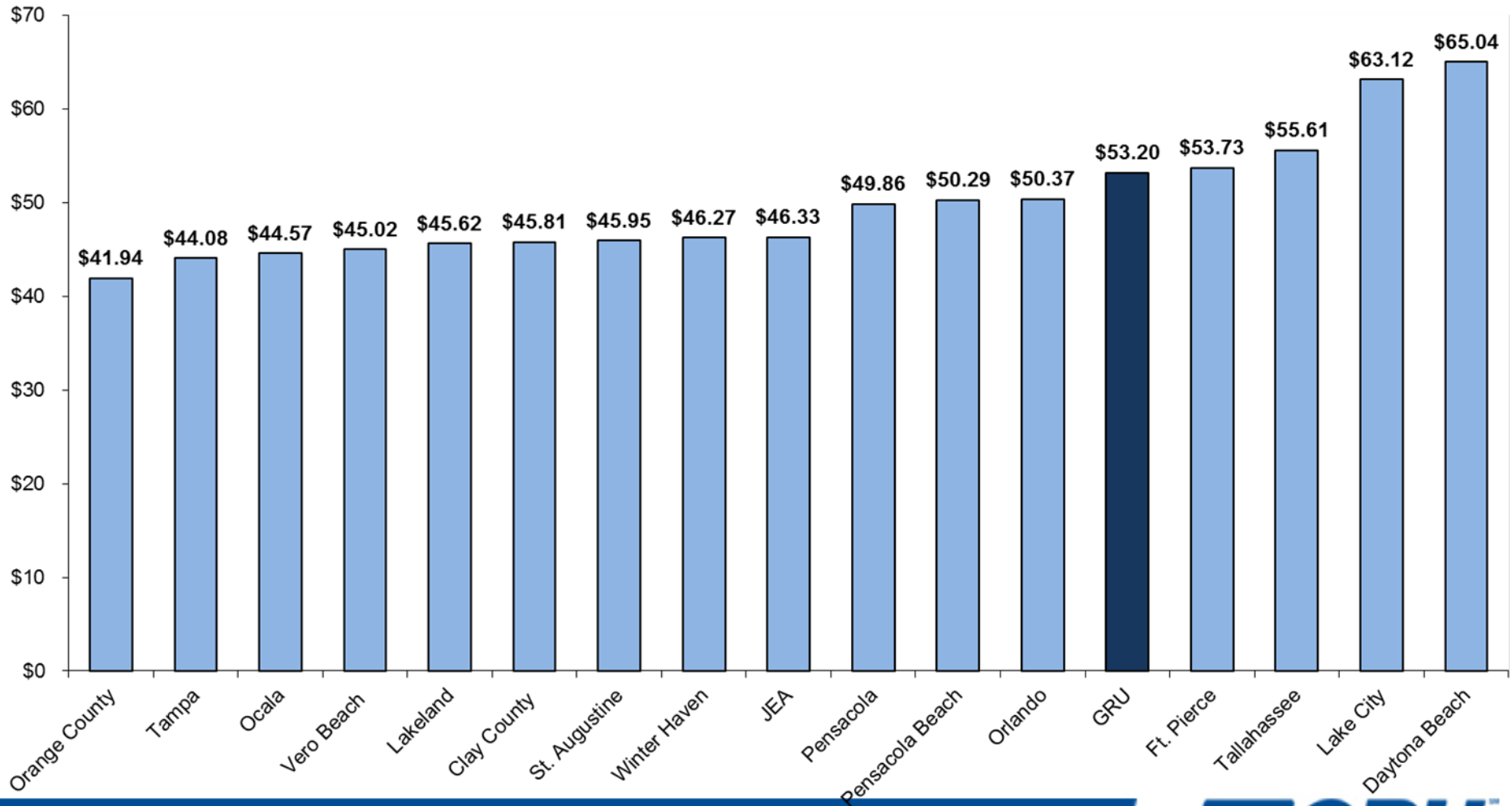
Reclaimed Water

Billing Component	2017 Rate	Proposed 2018
Monthly Customer Charge	\$9.10	No Change
Billing Charge (\$/1,000 Gallons)	\$0.95	No Change

Residential Wastewater Bill Comparison

7,000 Gallons

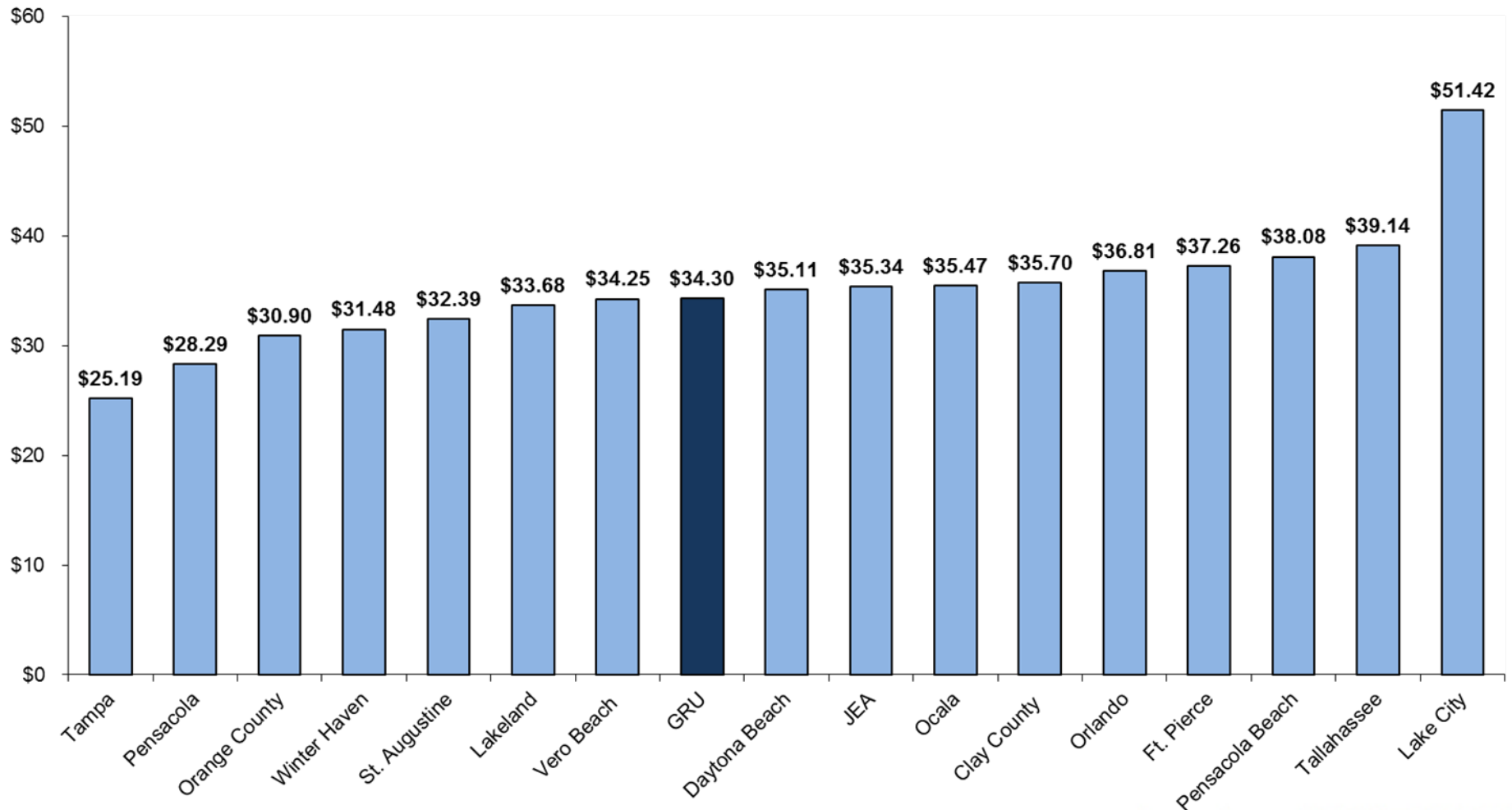
June 2017



Residential Wastewater Bill Comparison

4,000 Gallons – Average Use

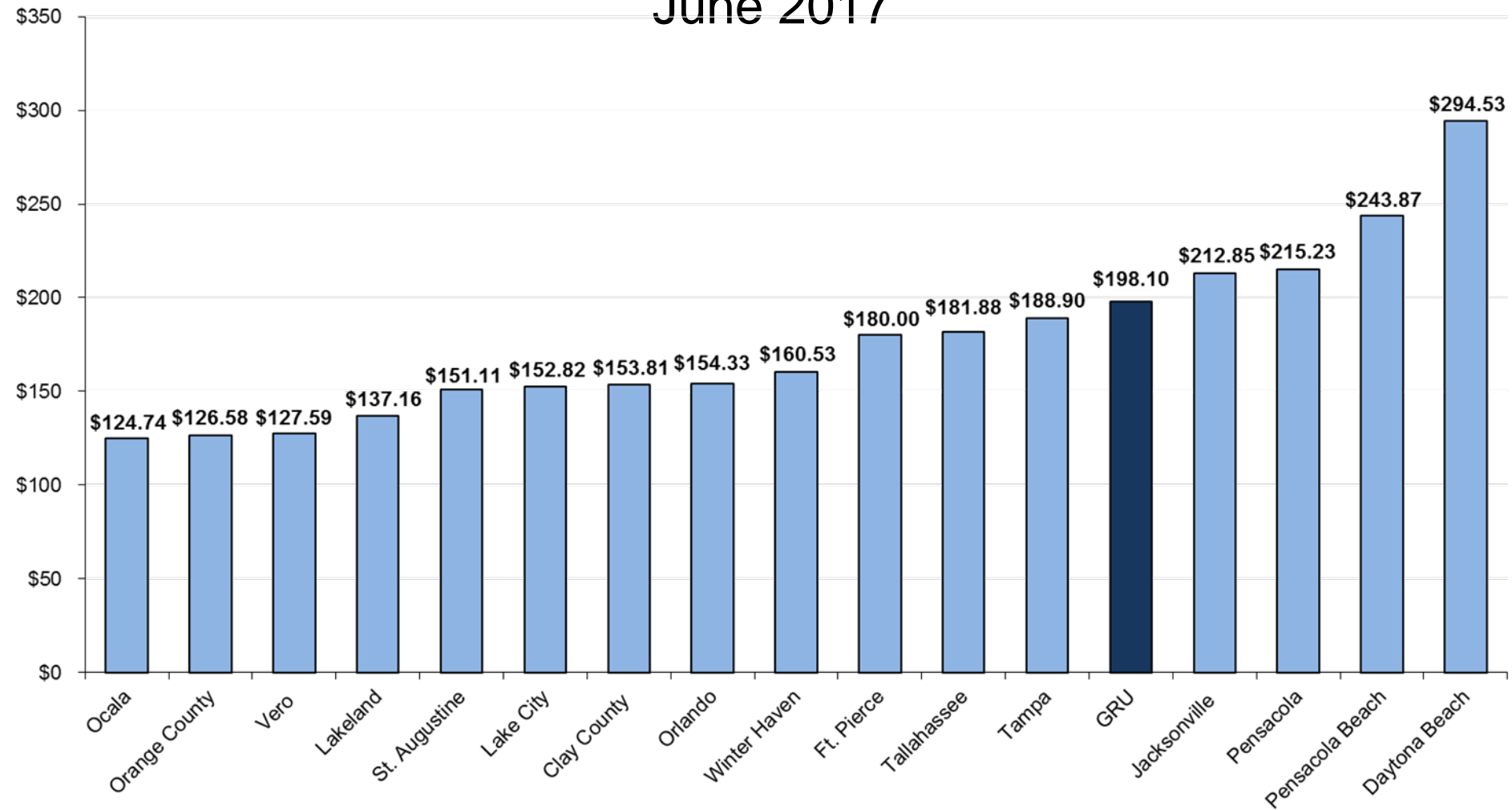
June 2017



Commercial Wastewater Bill Comparison

30,000 Gallons

June 2017



OTHER WATER AND WASTEWATER CHARGES

Proposed Water Meter Installation Charges

Meter Size	2017 Installation Charge	Proposed 2018 Installation Charge
5/8" or 3/4"	\$677.00	No Change
1"	\$780.00	No Change
1 ½"	\$2,202.00	No Change
2"	\$2,458.00	No Change
3"	\$7,957.00	No Change
4"	\$8,971.00	No Change
6"	\$16,436.00	No Change
8"	\$19,519.00	No Change

Proposed Water Connection Charges

Connection Type	Transmission & Distribution Connection Charge		Water Treatment Plant Connection Charge		Total Water Connection Charge	
	2017	2018	2017	2018	2017	2018
Single Family Residential ADF <= 280 gpd	\$433	\$448	\$646	\$675	\$1,079	\$1,123
Flow Based Average Daily Flow	\$1.548 per gpd	\$1.600 per gpd	\$2.308 per gpd	\$2.410 per gpd	\$3.856 per gpd	\$4.010 per gpd

Proposed Water Main Tapping Charges

Size	2017	Proposed 2018
1.5"	\$970	\$1,010
2"	\$970	\$1,010
4"	\$4,890	\$5,060
6"	\$5,270	\$5,450
8"	\$6,100	\$6,310
12"	\$9,710	\$10,050

Proposed Wastewater Connection Charges

Connection Type	Collection System Connection Charge		Wastewater Treatment Plant Connection Charge		Total Wastewater Connection Charge	
	2017	2018	2017	2018	2017	2018
Single Family Residential ADF <= 280 gpd	\$719	\$744	\$3,216	\$2,554	\$3,935	\$3,298
Flow Based Average Daily Flow	\$2.568 per gpd	\$2.660 per gpd	\$11.484 per gpd	\$9.120 per gpd	\$14.052 per gpd	\$11.780 per gpd

Proposed Water & Wastewater Inspection Service Fees

	Water		Wastewater	
	2017	Proposed 2018	2017	Proposed 2018
Plan Review Fee	\$730	\$760	\$1,320	\$1,360
\$/LF (Linear Foot)	\$2.38	\$2.46	\$5.86	\$6.06

OUTDOOR LIGHTING RATES

Outdoor Lighting Rates

- GRU is committed to effecting a sweeping change to LED lighting throughout our service area to promote financial savings and energy conservation.
- This will impact 30,000 lights in a systematic and financially responsible manner over a period of five years starting October 1, 2017.
- A portfolio of LED fixtures is available to deal with nearly all applications at this time.
- The City of Gainesville's streetlighting program includes approximately 13,060 lighting fixtures.
- Non-fuel annual revenues are approximately \$1,588,200 from C of G fixtures and \$565,400 from Alachua County fixtures.

Lighting Rate Construct

- Energy Delivery maintains a formulaic template for determining monthly pricing for all fixture types.
- This model accounts for Installation and Removal costs, Planned and Unplanned Maintenance costs, and the non-fuel energy cost associated with each type of fixture.
- All new LED fixture types are amortized over a system design life of 15 years.
- The rate calculation includes one maintenance service at the half-way point of system design life (7.5 years).
- All outdoor lighting rates are reviewed annually.

Select Comparison of Public Streetlight Rates

Fixture Description	FY2017 General Use	FY2018 General Use	FY2018 Mass Change Out
Type 11 - 100W HPS Cutoff, Gray	\$8.25	\$8.25	N/A
Type 14 - 150W HPS Cutoff, Gray	\$9.25	\$9.25	N/A
Type 16 - 250W HPS Cutoff, Gray	\$11.75	\$11.75	N/A
Type 38 (61) – LED Roadway Cutoff 1, Gray	\$15.00	\$11.00	\$5.25
Type 39 (62) – LED Roadway Cutoff 2, Gray	\$17.00	\$12.50	\$6.75
Type 40 (63) – LED Roadway Cutoff 3, Gray	\$20.50	\$16.00	\$9.25

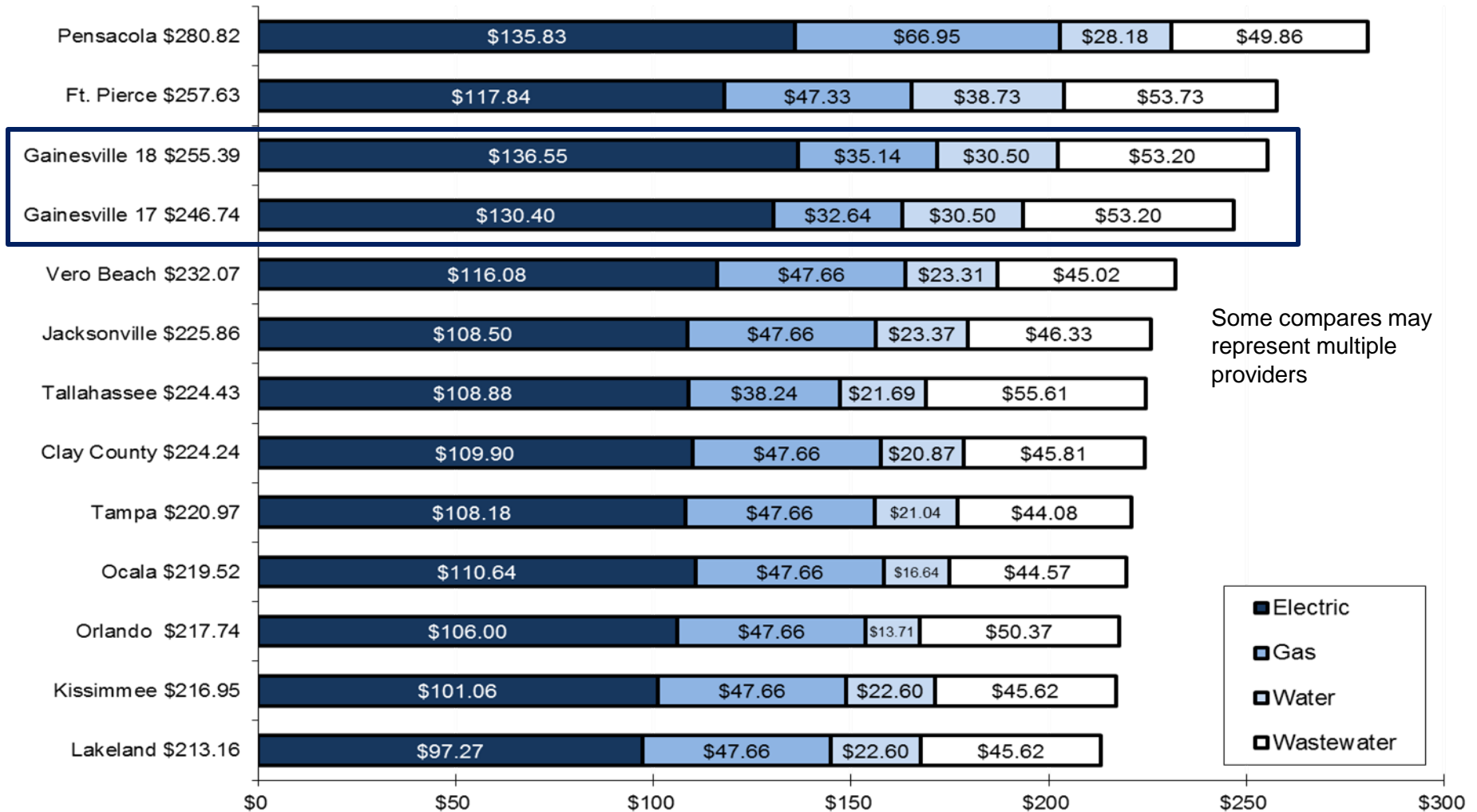
High Pressure Sodium (HPS) fixtures will no longer be available for installation/repair. Approximately 9800 Type 11, 3200 Type 14, and 2600 Type 16 currently in service.

Estimated FY2017 Outdoor Lighting Revenue

Customer Group	Fixtures	Poles	Fuel Adjustment	kWh
City of Gainesville Streetlights	\$1,588,200	\$482,900	\$666,000	9,513,600
Alachua County Streetlights	\$565,400	\$221,300	\$251,400	3,592,100
Rental Lights	\$1,993,800	\$774,500	\$852,800	12,248,100

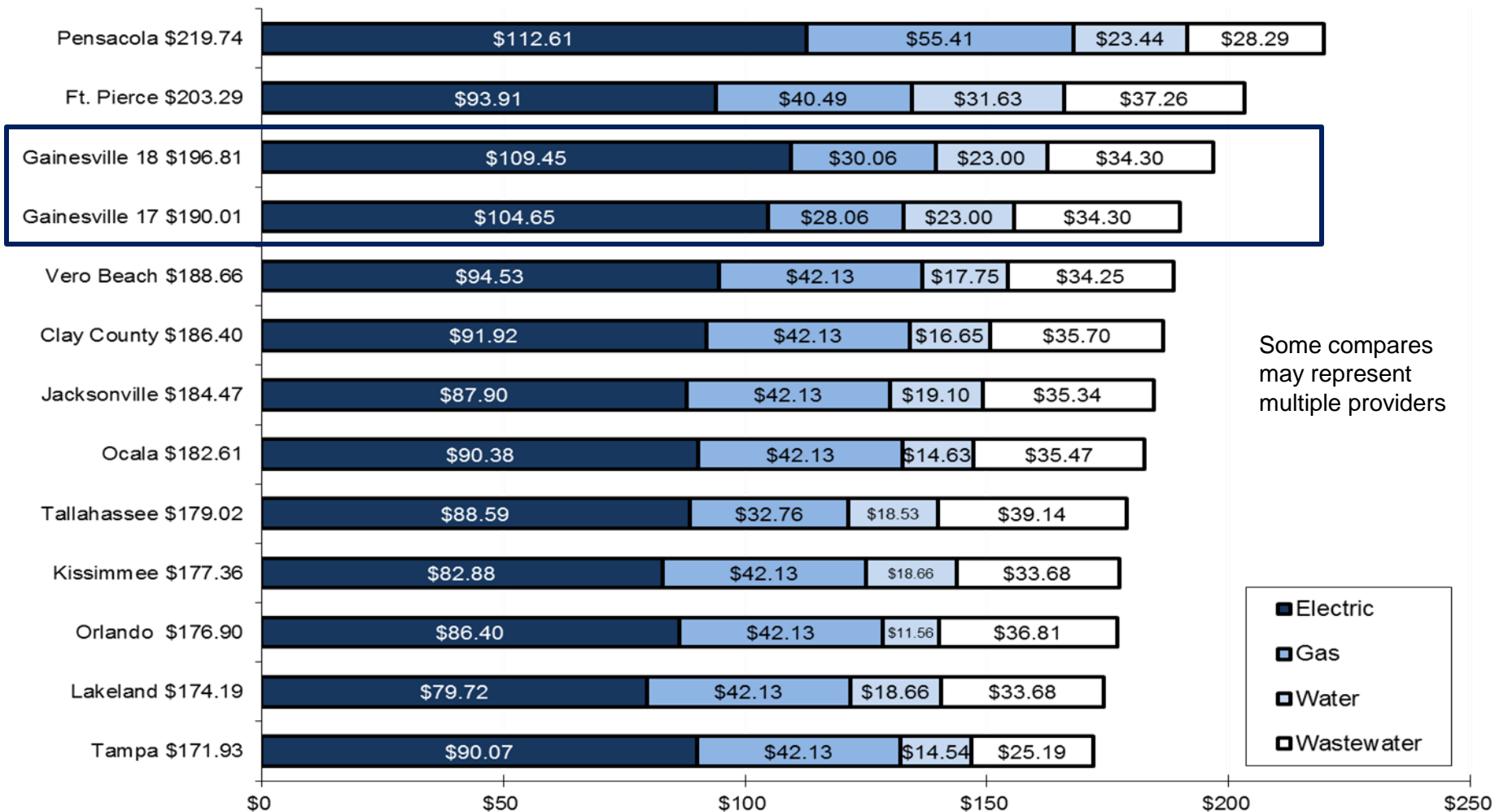
Residential Basket of Services

June 2017 - Standard Usage

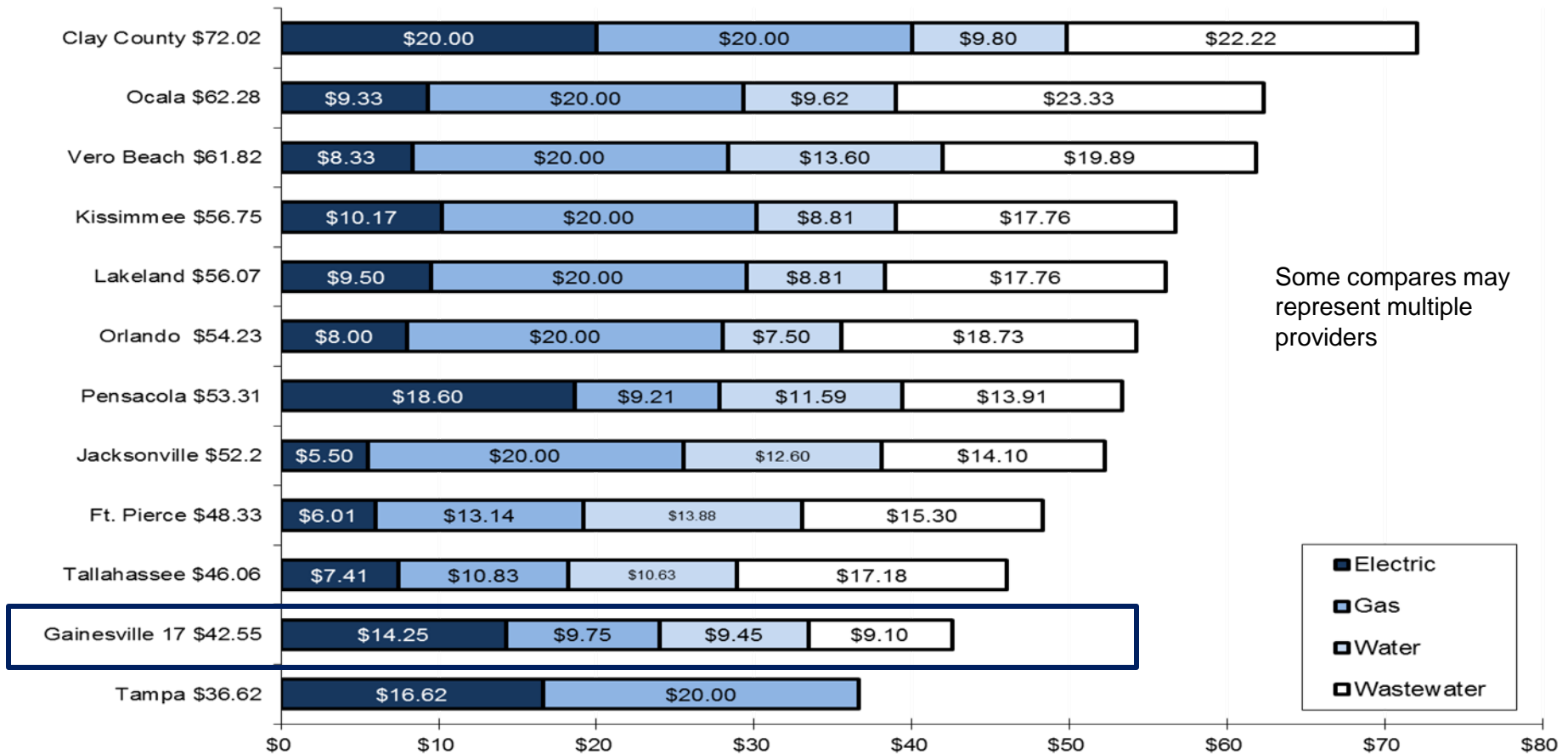


Residential Basket of Services

June 2017 - Average Usage



Residential Basket of Services Customer Charge – June 2017



Proposed Residential Rate Summary

System	Usage	June 2017 Bill	Base Rate Change	Fuel Change	Proposed FY2018 Bill
Electric	1000 kWh	\$130.40	\$1.15	\$5.00	\$136.55
Gas	25 therms	\$ 32.64	\$0.00	\$2.50	\$ 35.14
Water	7 kgal	\$ 30.50	\$0.00	N/A	\$ 30.50
Wastewater	7 kgal	<u>\$ 53.20</u>	<u>\$0.00</u>	<u>N/A</u>	<u>\$ 53.20</u>
Total Bill		\$246.74	\$1.15	\$7.50	\$255.39
Percentage Increase			0.47%	3.04%	3.51%

Proposed Residential Rate Summary – Average Usage

System	Usage	June 2017 Bill	Base Rate Change	Fuel Change	Proposed FY2018 Bill
Electric	800 kWh	\$104.65	\$0.80	\$4.00	\$109.45
Gas	20 therms	\$28.06	\$0.00	\$2.00	\$30.06
Water	5 kgal	\$23.00	\$0.00	N/A	\$23.00
Wastewater	4 kgal	<u>\$34.30</u>	<u>\$0.00</u>	<u>N/A</u>	<u>\$34.30</u>
Total Bill		\$190.01	\$0.80	\$6.00	\$196.81
Percentage Increase			0.42%	3.16%	3.58%

Recommendation

- The City Commission direct the City Attorney to draft, and the Clerk of the Commission to advertise an ordinance to adopt the recommended rates, fees and charges for Electric, Water, Wastewater and Gas.