



Legislation Text

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Contract with Seminole Electric Cooperative for Wholesale Electric Service to the Farnsworth Substation (NB) Seminole is a wholesale power utility, which provides electrical power to rural electric cooperatives throughout Florida, such as Clay Electric Cooperative, Inc ("Clay"). Gainesville Regional Utilities ("GRU") and Seminole have a long-standing relationship in which GRU provides wholesale electric power service to the Farnsworth substation. Electricity is then distributed from this substation to Clay customers on the west side of the Gainesville urban area. The contract was structured in 1985 to be relatively short-term due to IRS regulations at the time, which limited the duration over which the output of facilities purchased through tax-exempt financing could be committed to non-municipal entities. The existing contract can be cancelled with four months notice, which puts \$1,600,000 per year of non-fuel revenue at risk.

Revenue retention, through such programs as the Business Partner's Alliance, is an important part of GRU's long-term strategic plan. In view of current IRS regulations, Staff has been successful in negotiating the terms and conditions of a relatively long-term agreement with Seminole. The agreement will extend through December 31, 2012 (ten years). Demand and energy pricing for generation and transmission will initially be similar to that of GRU's large power customers, but with a 3.0% per year escalation automatically applied to the non-fuel energy charge. Fuel costs will continue to be a straight pass-through. The only termination provision is if a Regional Transmission Organization / Independent System Operator is formed in Florida, and GRU is unable to match its transmission delivery/ancillary services price.

The City Commission authorize the General Manager or his designee to negotiate and execute a ten-year agreement for wholesale electric service to the Farnsworth Substation with Seminole Electric Cooperative Inc. ("Seminole"). Under the current agreement, Seminole can, with four months notice, choose to serve the Farnsworth Substation with another provider or itself. Under a worst case scenario, including long term wheeling revenues, the present value of non-fuel revenue from Seminole through 2012 is \$2,581,000. Under the proposed new agreement the present value of non-fuel revenue over the same period is estimated to be \$10,300,000. This improvement in cash-flow-at risk is very beneficial for the long term financial strength of the system.

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