

Options/ Strategies to Return to Competitive Electric Rates

Item #140917
June 4, 2015

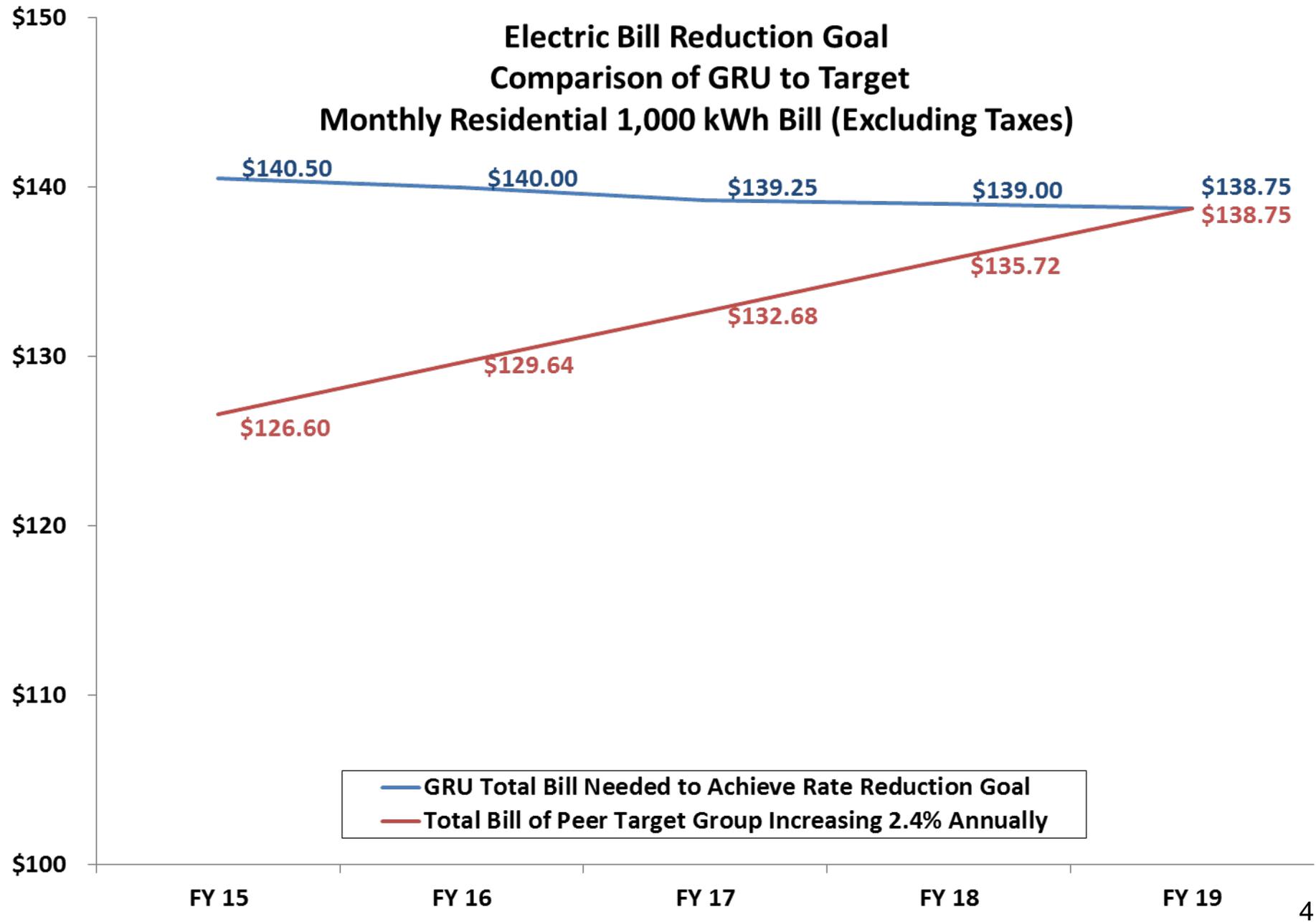
City Commission's Adopted Electric Rate Goal

- Be within one-half a standard deviation above the mean of all Florida electric utilities (roughly middle of the pack) as recommended by the Chamber of Commerce
- No time frame was determined

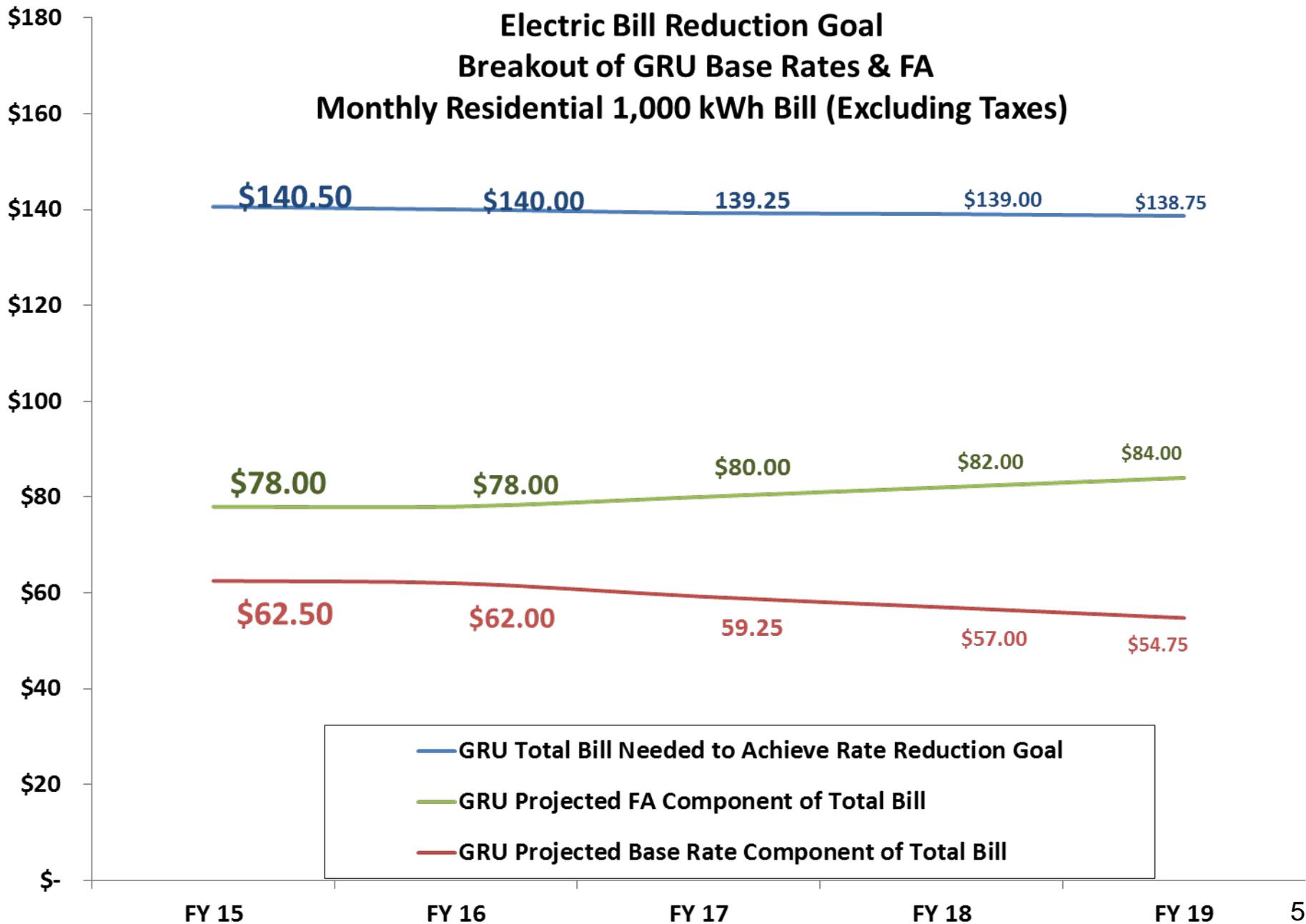
Time Frame for Consideration

- GRU five-year projections using EIA (Energy Information Administration) data for cost of electricity, would mean achieving a rate of \$138.75 for 1,000 kWh by FY 2019
 - Currently a 1,000 kWh residential electric bill is \$140.50

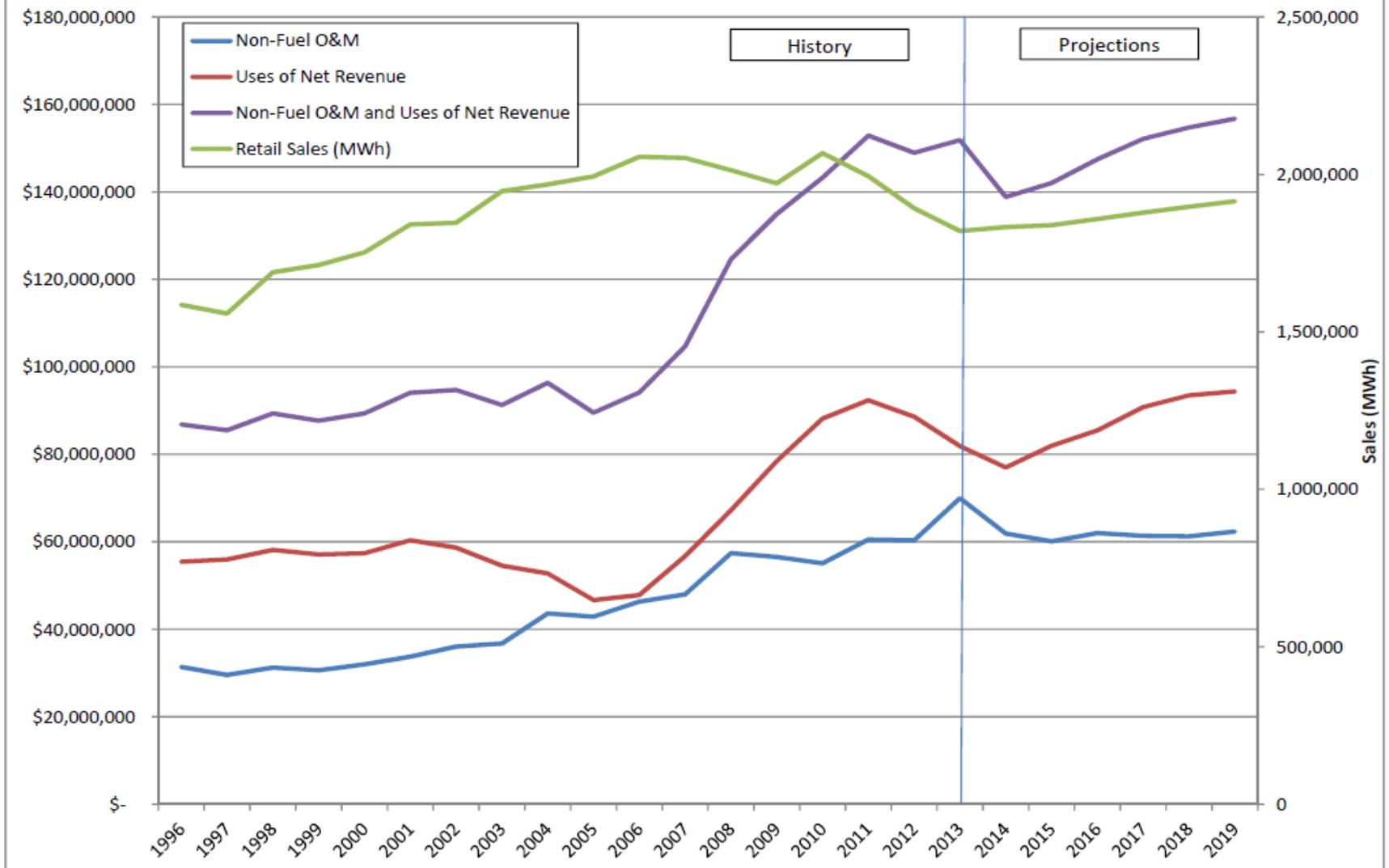
Electric Bill Reduction Goal Comparison of GRU to Target Monthly Residential 1,000 kWh Bill (Excluding Taxes)



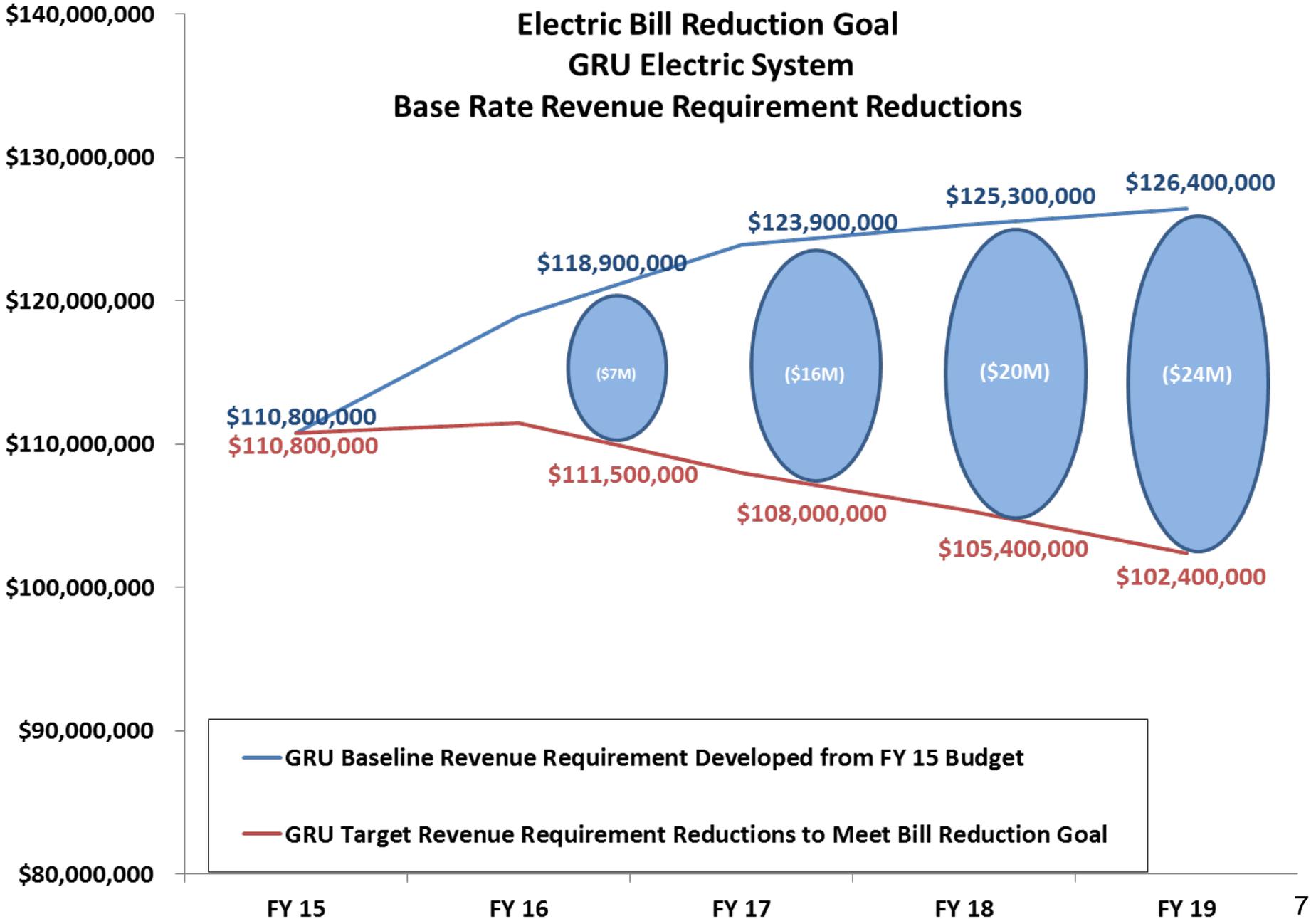
Electric Bill Reduction Goal Breakout of GRU Base Rates & FA Monthly Residential 1,000 kWh Bill (Excluding Taxes)



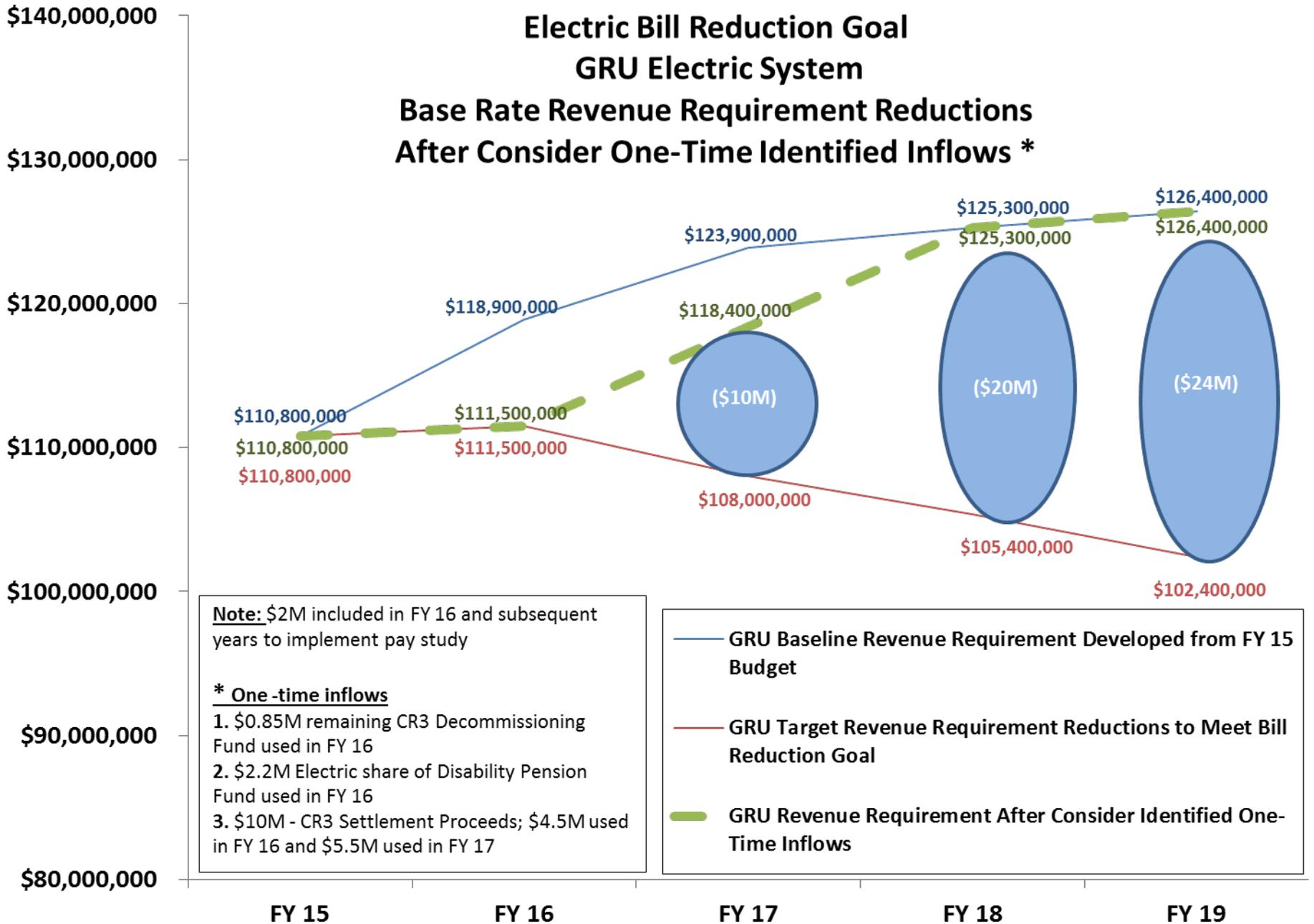
Retail Sales vs. O&M and Net Revenue 1996-2019



Electric Bill Reduction Goal GRU Electric System Base Rate Revenue Requirement Reductions



Electric Bill Reduction Goal GRU Electric System Base Rate Revenue Requirement Reductions After Consider One-Time Identified Inflows *



Note: \$2M included in FY 16 and subsequent years to implement pay study

*** One-time inflows**

- \$0.85M remaining CR3 Decommissioning Fund used in FY 16
- \$2.2M Electric share of Disability Pension Fund used in FY 16
- \$10M - CR3 Settlement Proceeds; \$4.5M used in FY 16 and \$5.5M used in FY 17

- GRU Baseline Revenue Requirement Developed from FY 15 Budget
- GRU Target Revenue Requirement Reductions to Meet Bill Reduction Goal
- GRU Revenue Requirement After Consider Identified One-Time Inflows

Conclusion

- We have a sizeable gap to close
- We will face new challenges in addition to what has been identified

Challenges

- Reliability, service, safety and regulatory requirements can cause expenses to rise
 - Federal regulatory requirements for cyber and physical security, carbon dioxide or others
- Too many reductions can reduce reliability, service and safety to unacceptable levels

The Challenge (cont.)

- Continued decline or slower than forecast sales growth puts more pressure on rates
 - Additional penetration of distributed technologies (solar, combined heat and power)
- Need and resulting costs to maintain system reliability, excellent service and safety
- Higher fuel prices, for example, GRU's very favorable coal transportation contract expires in 2019

Strategies to Increase Revenue

- Beginning in early 2014 staff began to look at the options for efficiency and savings and increase revenue
 - Pursuing wholesale sales
 - Looking at new opportunities, products and services
 - Pursuing retail growth opportunities through economic development
 - Using financial tools when it makes sense and market conditions are advantageous

Roundtable discussion to deal with generation costs March 26, 2014

Mark Benton, COG/ GRU

Fred Bryant, Attorney, FMPA

Brent Godshalk, COG

Fred Haddad, nFront

Jody Finklea, Attorney, FMPA

Chris Lover, PFM (GRU Financial Advisor)

Mike Mace, PFM (GRU Financial Advisor)

David Richardson, GRU

Nicolle Shalley, COG

Jim Stanfield, Strategic Direction

John Stanton, GRU

Kathy Viehe, GRU

Lewis Walton, GRU

Fred Murry, COG

Strategies to Reduce Costs

	Option
A	GREC contract legal review with “fresh eyes”
B	Negotiate Short Term Prepayment of Electricity/Capacity
C	Renegotiate Purchase Power Agreement
D	Pool Generating Assets
E	Develop RFP for lower cost electricity and enter into short-term Purchase Power Agreement
F	Purchaser vs. Generator

Cost Savings Strategy A

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
GREC contract legal review	Low	\$	Undetermined	Completed review No new discovery

Cost Savings Strategy B

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
Negotiate short term pre-pay	Medium	First determine interest \$100,000 to negotiate and develop agreement	\$ \$1-3 million	In 2014, staff prepared concept of a short-term prepay along with several other financial options Long term prepay discussed with GREC in 2012

Cost Savings Strategy C

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
Renegotiate the PPA for targeted savings	High	\$\$	\$\$	Analyze cost to pursue vs potential value received What are we willing to negotiate to gain lower pricing now?

Strategy C – Examples of Changes

- Reducing the payments in early years of the contract and increasing the payments in latter years of contract
- Navigant recommendation for tolling agreement/fuel handling
- Allow GRU to dispatch as low as 55 MW (currently 70 MW)

Cost Savings Strategy D

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
Pool Generating Assets with Florida Municipal Power Pool (FMPP)	<p>Medium</p> <p>Three year contract required</p> <p>Public and employee communication of risk/reward</p>	\$	<p>\$\$</p> <p>Rough estimate of \$6 million per year</p>	<p>Cost savings appear likely</p> <p>Would most likely result in reduced capacity factor for DH2</p>

Cost Savings Strategy E

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
Develop RFP for lower cost electricity and enter into short-term Purchase Power Agreement (PPA)	Medium	\$	\$	Transmission must be addressed Would most likely result in reduced capacity factor for DH2

Cost Savings Strategy F

Proposed Solution	Level of Complexity	Cost to Pursue (\$\$\$)	Savings Potential (\$\$\$)	Comments
Purchaser vs Generator	High Analysis would be complex and time consuming	Unknown	Unknown	What value does an aging, less efficient fleet have in the market?

What is missing?

- Buy the plant
- Team did not recommend due to the following:
 - Previously unsuccessful offer of \$400,000
 - Belief that the Commission was unwilling to consider
 - Issue of the 1603 grant (\$116 million)

Next Steps

- Provide staff with direction or requests for additional information
- Provide results of these discussions to new General Manager