

Electric System Base Rate Review

City of Ft. Meade, Florida



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Prepared by

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0. Executive Summary

- A. Electric Base Rates have not been changed since 2009 and need periodic review.
- B. The City's current electric rates are above peer group averages for all classes of customers. The residential class has the most favorable comparison while the large commercial class has the most unfavorable comparison.
- C. The revenues generated by the current rates are not sufficient to fund the pro forma expenses of the electric enterprise for FY 2017 and provide the budgeted return to the City General Fund.. Pro forma expenses are FY 2017 budgeted expenses as adjusted by WHH to reflect allocation of overheads, increased capital outlays and appropriate General Fund Transfers. Pro forma expenses are projected to exceed electric enterprise revenues by \$110,078.
- D. WHH has proposed the following rate adjustments:
 - a. WHH proposes that the energy charge for the residential class be increased by \$0.005 per kW-hr. from \$0.07660 per kw-hr to \$0.08160. This would increase the monthly bill for a customer using 1,000 kW-hrs. from \$124.56 to \$129.56, an increase of 4.0 percent. The proposed change would recover \$134,183 in additional revenues.
 - b. WHH proposes that the demand charge for the demand commercial customer class be reduced from \$9.42 per kW to \$8.50 per kW. This would decrease the monthly bill for a customer with a monthly demand of 75 kW and 30,000 kW-hrs consumption by \$69.00 or 2.0 percent. The proposed reduction in demand class revenues is estimated to be \$23,118 annually.
 - c. WHH recommends that a critical review of the historical usage of the smaller demand class commercial customers for compliance with the rate tariff. This review may result in a re-classification of as many as eight of the existing demand class customers to non-demand class commercial customers.
 - d. WHH proposes that Ft. Meade adopt the rate structure with segmented energy charges based on monthly consumption for the residential class. WHH proposes that the difference in energy rates between consumption less than 1,000 kW-hr and consumption greater than 1,000 kW-hrs. be equal to \$0.0100 per kW-hr. Therefore, the proposed residential energy charge would be \$0.08160 per kW-hr. for all

consumption by residential customers for the first 1,000 kW-hrs. in any month and the proposed energy charge for all consumption by residential customers above 1,000 kW-hrs in any month would be \$0.09160 per kW-hr.

- E. If the recommendations are adopted, the City's electric rates will remain above the peer group average for all customer classes; however, the relative disparity will be reduced. The additional revenue will be sufficient to fund the FY 2017 budget for the electric enterprise to include all allocations and general fund transfers.

1. Introduction

WHH was engaged to review the current retail electric rates for the City in August 2016 by the City Manager. The current rates have been in effect since 2009. WHH had been previously engaged by the City for numerous projects such as the Contract Rate of Delivery Analysis, sale of the natural gas distribution system and the analysis of standby generation alternatives. Additionally, WHH assists the City in establishing the Purchased Power Cost component of the electric rates each month. Therefore, WHH is familiar with the City's budgeting process and customer accounting and can perform a review of the City's retail electric rates at minimum cost.

Properly designed electric rates will achieve the following objectives:

1. Establish rates such that all costs associated with the electric enterprise, including the appropriate allocation of City overheads, are recovered.
2. Allocate costs to the appropriate customer classes such that revenues from each class offset the costs associated with providing service to each class.
3. Allocate costs between the energy charges and demand charges such that the correct price signal is communicated to customers.
4. Provide for sufficient revenues that allow for an appropriate transfer to the General Fund.

WHH reiterates that the primary purpose of any rate review is to ensure that the rates recover the full cost of providing electric service, including appropriate allocation of overheads and reasonable transfers to the General Fund. WHH notes that if enterprise functions cannot recover the full cost of providing services and provide a transfer to the General Fund to reflect the risks and uncertainties associated with operation of the enterprise at competitive rates and levels of service, the City should consider the sale of the enterprise function to a private party.

Electric system costs and associated revenues can be broadly classified into two categories: 1) those related to the cost of purchased power and 2) all other costs. The cost of purchased power represents approximately 65 percent of the total cost of the electric system. Currently, the City procures its bulk power supply from the Florida Municipal Power Agency's All Requirements Project. However, the City has exercised the Contract Rate of Delivery Option and therefore will be procuring a portion of its bulk power supply from alternative sources in the future. The timing of this is uncertain at this time and is dependent upon the growth in electric sales. Additionally, the City has notified FMPA that the City is terminating its participation in the ARP which becomes effective in 2041. After that date the City will be purchasing its entire bulk power supply requirements from the market. All bulk power supply costs are recovered through the Purchase Power Adjustment Clause and therefore are not considered in a review of base rates.

Base rates recover all other costs of operating the City's electric utility. The base rates are designed to recover the following costs:

1. Operation and maintenance costs of the electric distribution system,
2. Allocated portion of customer service related costs (billing, meter reading, customer service, customer accounting, etc.) and the allocated portion of City provided administrative and general common services (legal, accounting, human resources, City Manager, City Council, etc.),
3. Capital expenses for the electric enterprise and,
4. Transfers to the General Fund (profit from the electric enterprise).

Generally, these costs are relatively stable and therefore, base rates need to be reviewed only periodically. As previously noted, base rates were last reviewed in 2009 so it is appropriate that the City review the costs of providing electric service and assess whether the current rates are recovering these costs.

This rate review will first compare the existing electric rates for the City to a peer group of other electric utilities. The comparison of the City's current electric rates with peer utilities provides some insight into a review of rates. Then a sales forecast for FY 2017 will be used to estimate revenues from the electric enterprise. The study will then establish the revenue requirements of the electric system based on an analysis of the City's budgets, planned capital expenditures, costs of City provided common services and General Fund transfers. WHH has used rate comparisons from larger utilities that have performed extensive cost of service studies as guidance in the adjustment of existing rates to recover the cost of providing service. Based on budgeted costs and the sales forecast, WHH will determine if existing rates are sufficient to generate the revenues to fund the budgeted expenses. If not, WHH will recommend adjustments to existing rates. Finally, the new rates will be compared with existing City rates, and rates from a peer group of electric utilities. If necessary, WHH will propose a plan to implement the new rates if significant adjustments to existing rates are required.

2. Existing Rates and Peer Group Rate Comparison

Comparison of electric rates for a properly selected peer group serves several purposes. From a customer's perspective, this comparison answers the question "Are the City's rates for electrical service competitive with the rates of other similarly situated electric utilities?" From the City's perspective, the comparison serves as a management tool in evaluating budgets and serving as a performance benchmark.

There are 54 providers of retail electric service in Florida. Obviously, the comparison of electric rates among all providers is not practical or necessarily useful. WHH proposes that the selection of the peer group electric utilities involve several considerations.

1. Proximity to the City
2. Florida Market Considerations
3. Organizational Type

Based on these considerations, WHH suggests that the peer group include:

Peace River Electric Cooperative. Peace River Electric Cooperative (PRECO) provides electric service to the area surrounding the City boundary. Therefore, City customers can readily compare their electric rates and charges with those of neighbors that are served by PRECO. Significant disparities in rates can influence the decisions of customers to locate business or purchase residences. WHH believes that the inclusion of contiguous electric service providers is necessary to develop a credible rate comparison.

Duke Energy Florida. Duke Energy Florida (DEF) is one of the two dominant electric utilities in Florida serving about 25 percent of Florida's electric needs. WHH believes that any comparison of electric utility performance of utilities in Florida must include at least one of the "gorillas in the room." Additionally, PEF serves retail customers in close proximity to Ft. Meade serving some customers in Hardee County and Polk County and all of Highlands County.

City of Bartow. WHH believes it is appropriate to include another municipal utility in the rate comparison. The closest municipal electric utilities are cities of Wauchula, Lakeland and Bartow. Although Bartow is about five times larger than Ft. Meade, WHH believes that it is the best municipal to include in the peer group. The City of Lakeland is one of the larger municipal utilities which generates its own bulk power supply as opposed to purchasing it and therefore, WHH believes that it is less comparable to Ft. Meade which purchases its bulk power supply.

Florida Power and Light. FPL is the largest utility in Florida (the other gorilla in the room) serving approximately 50 percent of the entire state electrical requirements. Although FPL's service area is not contiguous to the City's, FPL does serve just south and west of the City. Both proximity and market considerations justify FPL's inclusion in the peer group

The rates used in the comparison do not include municipal service taxes nor gross receipt taxes which are applicable to all electric utilities providing service within the corporate boundaries of

cities. Additionally, these rate comparisons do not include sales taxes which are applied to commercial electric sales generally at a rate of 6 or 7 percent.

WHH has compared the rates for each member of the peer group with the rates for the City of Ft. Meade's three rate classes. The rate classes are Residential, Non-demand Commercial and Demand Commercial. Franchise fees have been included for PRECO, DEF and FPL since these fees are added for service provided inside a municipal boundary. This maintains comparability with the rates charged by Bartow and Ft. Meade.

Current rates for each member of class of customer and each member of the peer group are included in the following tables. For comparison of residential rates, WHH has assumed two different levels of consumption, 1,000 kW-hrs per month and 1,500 kW-hrs per month. The average residential customer in Ft. Meade uses 1,000 kW-hrs per month, however, during the hot summer months, average consumption increases to higher levels. Since many utilities have different rates at higher levels of consumption, it is useful to compare rates at both levels.

**Table 2.1
Residential Rate Comparison for 1,000 kW-hrs**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$12.96	\$22.50	\$8.00	\$8.76	\$7.57
Energy Charge	\$76.60	\$120.74	\$46.70	\$70.06	\$59.84
Fuel/Bulk Power Cost Adjustment	\$35.00	-\$12.50	\$70.00	\$26.79	\$21.73
Franchise Fee Adj		\$7.84		\$6.34	\$5.37
Bill 1000 kW-hr	\$124.56	\$138.59	\$124.70	\$111.95	\$94.91

**Table 2.2
Residential Rate Comparison for 1,500 kW-hrs**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$12.96	\$22.50	\$8.00	\$8.76	\$7.87
Energy Charge	\$114.90	\$191.11	\$70.05	\$111.90	\$95.39
Fuel/Bulk Power Cost Adjustment	\$52.50	-\$18.75	\$105.00	\$45.19	\$37.60
Franchise Fee Adj		\$11.09		\$9.95	\$8.45
Bill 1000 kW-hr	\$180.36	\$206.55	\$183.05	\$175.80	\$149.30

WHH notes that Ft. Meade's current residential rates are reasonably competitive being the third lowest of the five-member peer group at both the 1,000 kW-hr consumption level and at the 1,500 kW-hr consumption level. The average for the peer group excluding Ft. Meade for 1,000 kW-hr consumption is \$117.54 and Ft. Meade's rate for 1,000 kW-hr consumption is \$124.56, which is 6.0 percent higher. For 1,500 kW-hr consumption per month, the average for the peer group is \$178.67 while Ft. Meade's rate is \$180.36 which is one percent higher. WHH notes that FPL has filed for a 13 percent rate increase with the Florida Public Service Commission. Although the results of this application are not known at this time, one can assume that FPL's rates will increase.

Since FPL has the lowest rates in the peer group, any increase in FPL’s rates will improve the relative standing of Ft. Meade’s current residential rates. WHH concludes that the current residential rates for Ft. Meade are reasonably competitive.

WHH next reviewed the comparison of the rates of the peer group for the small commercial class. WHH notes that the average consumption level for the non-demand commercial class in Ft. Meade is about 1,811 kW-hr, slightly more than the base consumption level of 1,500 kW-hrs which is typically used for rate comparisons in the non-demand commercial customer class.

**Table 2.3
Small Commercial Class Peer Group Rate Comparison 1,500 kW-hrs**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$17.28	\$25.00	\$8.00	\$11.59	\$7.75
Energy Charge cents per kW-hr	\$135.90	\$206.66	\$91.50	\$105.35	\$95.97
Bulk Power Cost Adjustment cents per kW-hr	\$52.50	-\$18.75	\$105.00	\$44.60	\$37.53
Franchise Fee Adj		\$12.77		\$9.69	\$8.48
Bill 1500 kW-hr	\$205.68	\$225.68	\$204.50	\$171.23	\$149.73

WHH notes that Ft Meade’s current non-demand commercial rates are the second highest of the peer group utilities. The average for the peer group excluding Ft. Meade for 1,500 kW-hr consumption is \$187.82 and Ft. Meade’s rate is \$205.68, which is 9.5 percent higher. WHH again notes that the pending increase in FPL’s rates will improve the relative standing of Ft. Meade’s rates for the non-demand commercial class.

WHH next reviewed the comparison of the rates of the peer group for the demand commercial class. Rates are compared for each peer utility at the 75 kW and 30,000 kW-hr consumption level. WHH notes that the average consumption level for the demand commercial class in Ft. Meade is about 80 kW and 29,000 kW-hr, close to the consumption levels used in the peer group rate comparison.

**Table 2.4
Demand Commercial Class Peer Group Rate Comparison**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$42.00	\$100.00	\$20.00	\$11.59	\$20.24
Energy Charge 30,000 kW-hr	\$1608.00	\$2637.36	\$624.00	\$730.80	\$675.60
Demand Charge 75 kW	\$706.50	\$618.00	\$662.25	\$771.00	\$781.50
Fuel Adjustment	\$1,050.00	-\$375.00	\$2,100.00	\$902.40	\$750.00
Franchise Fee Adj		\$178.87		\$144.95	\$133.66
Bill 150 kW and 60,000 kW-hr	\$3,406.50	\$3,159.23	\$3,406.25	\$2,560.74	\$2,361.00

WHH notes that Ft. Meade’s current demand commercial rates are the highest of the five-member peer group. The average for the peer group excluding Ft. Meade is \$2,872.62 and Ft Meade’s rate is \$3,406.50, which is 18.6 percent higher.

The above tables present a lot of data. To facilitate the analysis and simplify the presentation and understanding of the data, WHH has summarized the above analysis in the next table.

**Table 2.5
Rate Comparison Summary**

	Residential Class 1,000 kW-hrs Consumption	Non-Demand Commercial Class 1,500 kW-hrs Consumption	Demand Commercial Class 75 kW & 30,000 kW-hrs Consumption
Average Charges for Peer Group excluding Ft. Meade	\$117.54	\$187.82	\$2,872.62
Current Ft. Meade Charge	\$124.56	\$205.68	\$3,406.50
Percent Difference	+6.0%	+9.5%	+18.6%

As is evident, Ft. Meade’s current rates are above the peer group average for all customer classes. WHH suggests that it should be an objective to maintain comparative rates at or below the peer group average for all customer classes and to be the most competitive in the Demand Commercial Class since this class has the greatest economic impact on the City. WHH will consider the current comparative rate conclusions later in this report when proposed rate adjustments are developed.

Since the disparity in rates for the Demand Commercial Class between the peer group and Ft. Meade is so great, WHH reviewed data from other utilities in order to glean some insight into the larger difference. The Florida Municipal Electric Association publishes a monthly report comparing the rates of 33 municipal utilities in Florida. Based on the May 2016 report, only the six cities of Blountstown, Bushnell, Chattahoochee, Gainesville, Jacksonville Beach and Starke of the 33 municipal utilities had higher rates for this class of customers than Ft. Meade. Investor owned utilities Florida Power and Light, Duke Energy Florida, Tampa Electric Company had rates lower than Ft. Meade. The only investor owned utility with higher rates was Florida Public Services Company (FPU) which only serves the city of Marianna and Fernandina Beach. WHH concludes that the City of Ft. Meade is least competitive in this customer class.

Since this customer class is the least competitive, WHH has conducted some additional research into this class. Currently, the City has 16 accounts representing 13 different customers in the commercial demand class. These are listed below. Of the 13 different customers, three are City accounts, three are county Board of Education accounts, one state of Florida department and six non-publicly owned businesses.

**Table 2.6
Demand Class Customer Listing**

	Customer Name	Account Number	Peak Demand	Consumption July 2016
1	Ft Meade High School Edgewood	3441	348.0	72,000
2	McDonalds	10031	140.8	69,920
3	Wastewater Plant	1479	141.6	69,360
4	Fowlers Grocery*	2609	86.0	31,360
5	Circle K	959	46.4	23,520
6	City Water Plant	1450	178.0	18,960
7	Presco Food Store	7867	43.6	17,840
8	State of FL DEP*	9259	16.9	15,208
9	Peace River Packing	4457	174.0	14,760
10	Grocery Plus LLC	9123	31.2	13,800
11	Ft. Meade High School Air Cond Gym*	1513	108.0	13,200
12	Peace River Packing	877	144.0	11,520
13	Number 3 Deep Well	1454	105.6	10,320
14	Anna Woodbury Elementary	1493	8.6	8,160
15	Lewis Elementary School*	1500	16.0	5,902
16	Lewis Elementary School Café*	1503	10.3	5,250

All consumption data is based on July 2016 billings except listings denoted with an asterisk. Due to the transition to the new billing system some data was incorrect. Therefore, WHH used September 2016 billing data for these four customers. Also, note that some listings of demand class customers included Comcast Cable (account number 5868). This customer has approximately 12 meters throughout the system and due to a special billing arrangement, is billed on total energy consumption although the billing system includes a manually entered demand. WHH did not include Comcast in the demand class customer listing.

WHH notes that the current electric tariff provides that all customers with an average monthly consumption exceeding 20,000 kW-hrs. should be classified as General Service Demand Class customers. Based on this criteria, it appears that some customers should be re-classified as General Service Non-demand. However, WHH notes that customers with an average consumption in excess of 20,000 kW-hrs will have a monthly peak demand of about 50-60 kW. Most utilities in Florida use 20-25 kW demand as the breakpoint between non-demand class commercial customers and demand class commercial customers. WHH will recommend that the City review the classification of some demand class commercial customers.

3. Sales Forecast

In order to perform a rate review, it is necessary that revenues from an electric enterprise be estimated. Since revenues are equal to rates times electricity sales, a sales forecast is necessary. In this section, WHH developed a sales forecast for each class of customers. Traditionally, when a sales forecast is developed, historical sales are reviewed and projected forward with some consideration of the number of customers, current economic forecast plus other inputs such as unusual weather, the price elasticity effects on consumption and planned developments within the electric service area. Weather data is used primarily to adjust historical sales to account for unusual weather and is not used to forecast sales since one can only assume normal weather during the future periods.

Typically, WHH would perform an independent sales forecast. However, in the case of Ft. Meade, FMPA develops a detailed sales forecast annually for each All Requirements Participant as part of their budgeting process. Therefore, to avoid unnecessary duplication of effort, WHH has used the sales forecast as developed by FMPA in this rate review.

The following table reflects historical and forecasted customer counts for each customer class. The FMPA forecast did not segregate the non-demand commercial customer class from the demand commercial class.

Table 3.1 Number of Customers

Fiscal Year	Residential Class	Non-Demand and Demand Commercial Class
2013	2,385	334
2014	2,374	335
2015	2,377	320
2016	2,357	325
2017	2,351	329
2018	2,358	333

WHH notes that based on data acquired in July 2016, the current residential customer count is above the FMPA forecast which was prepared in early 2016. The current residential customer count is 2,397. However, the current commercial customer count is 313 which is below the FMPA forecast.

FMPA forecasts a slight increase in consumption per residential customer of about 0.5 percent per year. This reflects the combined and off-setting effects of conservation and increasing efficiency of electrical appliance with increases in the number of electrical appliances. FMPA forecasts a slight reduction in consumption per customer for the commercial class of about 1.0 percent per year. The net effect of the changes in customer count and consumption per customer forecast results in an overall increase in electrical sales of about 0.6 percent per year.

The resulting sales forecasts are included in the table on the following page.

Table 3.2
Energy Sales Forecast

Fiscal Year	Residential Class	Commercial Class	Total Sales	Percent Change
2017	26,481,000	13,156,000	39,638,000	
2018	26,689,000	13,175,000	39,864,000	0.6%
2019	26,916,000	13,194,000	40,111,000	0.6%

Estimates of future sales will be fundamental in estimating the revenue requirements and the adequacy of the current electric rates.

4. Revenue Requirements

The primary objective of reviewing the existing rates is to determine if the expected revenues from the electric enterprise are sufficient to recover the expected cost of operating that enterprise plus provide some benefit to the City commensurate with the risks and opportunity costs assumed by the City in owning and operating the electric enterprise.

Revenue requirements for the electric enterprise can be separated into the following components.

1. Bulk Power Supply Expenses
2. Electric Enterprise Operating and Maintenance Expenses
3. Electric Enterprise Capital Expenses
4. Allocation of Support Services and Overheads
5. General Fund Transfer

Each is discussed separately.

Bulk Power Supply Expenses. This is the largest component of costs for the electric enterprise typically representing about 65-70 percent of total revenue requirements for the electric enterprise. However, since these costs are recovered separately in the Bulk Power Cost Adjustment (PCA) component of rates, these costs do not impact the determination of base rates and therefore are not considered when reviewing base rates.

Although not used in the determination of base rates, WHH has tabulated historical expenditures for bulk power supply and the amount budgeted for FY 2017 for informational purposes in the following table. The decline in natural gas prices have resulted in stabilized bulk power supply costs during recent years, however natural gas prices are forecasted to increase in FY 2017 resulting in higher bulk power supply costs for the FY 2017 budget.

**Table 4.1
Historical Bulk Power Supply Expense**

Year	Bulk Power Supply Expense \$	Retail Sales	Bulk Power Supply Expense per MW-hr
FY 2012	\$3,951,228	38,771,891	\$101.91
FY 2013	\$3,611,531	38,481,089	\$93.85
FY 2014	\$3,482,251	39,559,377	\$88.03
FY 2015	\$3,391,629	40,498,710	\$83.75
FY 2016 (12 months ending July)	\$3,351,499	40,198,101	\$83.37
FY 2017 Budget Request	\$3,900,000	39,638,000¹	\$98.39

1. FY 2017 FMPA Budget

Electric Enterprise Operating and Maintenance Expenses. This component represents all other costs of the electric enterprise except for outlays associated with capital expenses, overhead allocations and general fund transfers. Typical costs include cost of personnel, material and supplies, vehicle costs and miscellaneous contractual services such as tree trimming. The City aggregates these costs in accounts beginning with 401.

Historical data for Electric Fund Expenses is presented below.

Table 4.2
Electric Enterprise Historical Operating and Maintenance Expenses

	Actual 2015	Budget 2016	Proposed Budget 2017
Electric Operating Costs	\$521,124	\$604,488	\$560,821

WHH has used the proposed budget amount of \$560,281 for Electric Operating Expenses.

Electric Fund Capital Expenses. As background information, useful for estimating the appropriate level of capital expenses, WHH offers the following comments. Publicly owned utilities such as the City’s electric distribution enterprise face additional challenges with regard to capital budgeting. Since most small electric distribution systems do not periodically issue debt, annual outlays for both O&M and capital expenditures are funded from cash revenues. Additionally, municipal systems typically set rates based on the annual cash flow budgets. In the case of investor owned utilities, which establish rates using a return on investment methodology, capital expenditures are not funded from only cash revenues but also from the proceeds of bond sales and equity sales. Availability of funds from these sources for investor owned utilities tends to decouple the capital budgeting process from the annual budget and rate setting process. The result is that capital expenditures on projects can be more objectively evaluated on the merits of each project without undue influence from cash needs of the entity or immediate impact on rates.

However, in municipal systems, capital planning, typically involving the consideration of investments with 30 year economic lives, are subjected to the vagaries of the annual city budgeting process. As is well known by all public employees, the annual budgeting process faces numerous pressures ranging from tax revenue shortfalls, local politics, state revenue allocations in addition to the impacts related to the general economy. This environment is not conducive to the rational and objective evaluation of capital projects for an enterprise. Due to the nature of capital expenditures, they are subject to deferral. For example, the replacement of a truck can always be deferred one more year or the purchase of equipment can be deferred by renting the equivalent piece of equipment. Therefore, during the annual budgeting process that all cities face, capital expenditures, as opposed to other budget categories, are more subject to reductions as cities strive to balance a budget.

Given the capital intensity of the electric distribution business, deferral of capital expenditures is much like a slow growing cancer, with little immediate impact, but slowly over time, the condition

of the system is eroded and service levels decline. As the backlog in system improvements become larger, eventually the system is in a crisis mode, requiring either large scale capital improvements or the sale of the system.

Based on previous work for other clients WHH has estimated that the minimum annual capital expenditures for electric distribution systems are about \$130 per customer. Based on the current customer count for Ft. Meade, this is equal to approximately \$350,000. Since the current budget plus recent budgets for capital expenses are considerably below this level WHH has some concern that the capital needs of the electric system are not being addressed. It is possible that some capital expenditures are being expensed as opposed to being capitalized. This is not uncommon in small municipal systems that tend to operate on a cash basis. The estimate of \$120 per customer noted above was based on a review of investor owned and large municipal systems. Since these systems develop rates based on a return on investment, their treatment of capital expenses tends to be more rigorous. WHH is not proposing an adjustment to the budget, but is alerting City personnel that this may become an area of concern.

However, for the purposes of estimating the revenue requirements of the electric enterprises, WHH believes that it is appropriate to include an estimate of future capital expenses that is comparable to industry experience. Therefore, WHH has included \$350,000 for capital expenses in developing the revenue requirements for retail rates.

Allocation of Support Services General and Administrative Overheads. This area includes the budget categories of Legislative, Executive, Finance, Planning and Land Use, and General Government. The City has budgeted \$1,030,013 for these departments in FY 2017. This amount is developed below.

**Table 4.3
City General and Administrative Expense Allocation**

G&A	FY 2017 Budget
Legislative	\$74,724
Executive	\$111,497
Finance	\$529,338
Planning and Land Use	\$77,501
General Government	\$236,953
Total G&A	\$1,030,013

WHH proposes that for rate making purposes, the electric department should be allocated a portion of these costs based on the electric enterprise expenses as a percentage of total City expenses.

WHH has used the FY 2017 proposed budget to determine the appropriate allocation. The electric enterprise budgeted \$5,600,824 in expenses and all City expenses totaled 11,340,175. Therefore, the electric enterprise expenses are 49.39 percent of total City expenses. This results in a pro rata

allocation of City A&G to the electric enterprise of \$508,715. WHH has used this amount in the determination of revenue requirements.

General Fund Transfer. This is another area in which WHH has serious concerns. WHH believes that some additional background information on the subject of General Fund Transfers will be beneficial particularly as the City has some new administrative personnel. WHH believes that the lack of a General Fund Transfer policy is hampering the effective administration of all utility services.

First, WHH recommends that the General Fund Transfer be separated from the allocation of overhead services. General Fund Transfer essentially represents the profit from the City's operation of an enterprise. This transfer is often confused with the allocation of costs of common services provided by the City. These common services typically include support in the areas of finance, human resources and legal, customer services that are provided to all enterprise functions and A&G services provided by the City management and governance team (City Manager and City Council). Allocation of the costs of these services to each department within the City benefiting from these services is appropriate and is a real cost of the enterprise and WHH believes that this allocation should be separated from the General Fund Transfers.

Some would suggest that the City should provide enterprise functions on a cost basis without any profit. WHH opposes this suggestion, as with any enterprise, the provision of services involves some risk. Revenues can vary as a result of economic conditions and expenses cannot be forecasted with absolute accuracy. These uncertainties represent risk that the City is incurring and everyone generally agrees that one should be compensated for the assumption of risk. Additionally, there is an opportunity cost associated with each enterprise. The City is entitled to a return on that opportunity cost. One can disagree as to the appropriate level of General Fund Transfer but WHH strongly believes that a profit or General Fund Transfer is appropriate for all enterprise type functions.

The area involving most controversy regarding General Fund Transfers is the amount of the transfer. It is not unusual that enterprise budgets become the object of additional scrutiny during the annual City budgeting process. During periods when tax revenues decline or costs are increasing for the City, the General Fund Transfer amount in an enterprise budget becomes a tempting target for City administrators and elected officials. In an effort to avoid ad valorem tax increases or the reduction of services in other areas, some cities have raised the General Fund Transfer amounts from enterprise functions such as utilities.

In an effort to provide some objectivity as to the determination of the appropriate General Fund Transfer amount and avoid manipulation of the enterprise fund budget, WHH advocates a formulaic approach to the determination of the transfer amounts. This objective approach reviewed only periodically avoids the annual battle between city administration and utility staff to determine the transfer amount. Additionally, this provides accountability to utility personnel that utility rates are a result of the management of costs and revenues by the utility staff and are not unduly influenced by widely varying General Fund Transfer amounts.

One can use several techniques to estimate the appropriate amount to transfer to the General Fund. The first methodology considered is an analysis of the profits of investor owned utilities providing similar services. Investor owned utilities rates are regulated by the Florida Public Service Commission. Approval of the rates of these utilities involve an extensive analysis of the costs of providing utility service. Included in these costs is an appropriate amount of profit for the utility. The allowed profit is based on a percentage return on the investment by the utility in assets to provide the utility service. The percentage return allowed by the PSC is a function of the current market price for the sources of funds the utility used to procure the assets utilized in providing service. The sources are debt capital and equity capital and much of the analysis by the PSC in a rate proceeding is focused on the determination of the costs of these sources of capital. The two greatest determinants are the current interest rate of corporate bonds and some assessment of the risk that the utility assumes in providing the utility services.

WHH has reviewed the profits of Florida's investor owned electric utilities for recent years. The profits are measured as a percent of electric sale revenues. Based on this review, WHH has concluded that during the past two years the profits of Florida's investor owned utilities have averaged about 12 percent of sales. WHH believes that this metric represents a ceiling on reasonable profits for several reasons. The first reason is that the investor owned utilities have greater risk than municipal utilities such as Ft. Meade. They engage in power generation which entails significant risks whereas the City just purchases its power from third parties. Additionally, investor owned utilities incur some risks in the approval of rates whereas a municipal utility has only to get city council approval to increase rates. Secondly, under the premise that appropriate profits are a function of the cost of capital, municipals enjoy access to lower cost tax exempt funds. WHH believes that adjustments for these two considerations suggest that on a comparative basis, a reasonable General Fund Transfer of 9-10 percent is justifiable.

Another completely independent methodology to indicate the appropriate level of transfer is to consider the annual equivalent of the proceeds that the City would realize if the electric system was sold. If the system was sold, the City would realize 6 percent of electric sales revenues from the franchise fee paid by the purchasing utility. In addition, the City would realize a lump sum payment from the sale of the system. Base on various valuation metrics of investor owned electric utilities with a Florida presence, WHH would estimate that the enterprise value of the City's electric distribution system would be about \$10 million. Based on this high-level estimate of the value of the electric enterprise, proceeds from the sale could be conservatively invested in long term US treasury bonds yielding 2.6 percent. Converting these fixed interest payments into an escalating annual payment, results in a payment to the City of about \$115,000 per year escalating at 2 percent annually which is equal to 2.1 percent of system electric revenues. Combining this with the 6 percent franchise fee, equals to a return to the City of 8.1 percent of electric revenues.

WHH suggests that this approach establishes a floor on the General Fund Transfer. If the transfer isn't equal to approximately 8.1 percent of revenues, the City would be better off in selling the system and receiving the franchise fee plus income from the proceeds of the sale of the system. However, note that pending the expiration of the All Requirements Project participation agreement, the sale of the system is effectively prohibited at this time.

Lastly, WHH has reviewed the General Fund Transfer of other municipal utilities. The Florida Municipal Power Agency recently completed a survey of the General Fund Transfer practices of the participants in the FMPA All Requirements Project. These thirteen municipal utilities purchase their bulk power supply from FMPA under a long-term contract. The transfers to the General Fund are tabulated in the following table.

**Table 4.4
General Fund Transfers -2015 Survey of FMPA ARP Cities**

ARP Cities	Retail Sales (MWH)	Electric Revenues	Electric Fund Transfer to General Fund	% of Revenues	\$ /MWH
Bushnell	23,092	\$3,075,424	\$175,000	5.7%	\$7.58
Beaches Energy*	765,105	\$99,205,551	\$4,027,732	4.1%	\$5.26
Clewiston	98,736	\$10,951,484	\$906,253	8.3%	\$9.18
Ft Pierce	539,158	\$65,553,428	\$3,932,006	7.3%	\$7.29
Green Cove	107,621	\$12,089,859	\$953,603	7.9%	\$8.86
Havana	24,079	\$2,908,814	\$708,000	24.3%	\$29.40
Keys Energy	732,959	\$85,503,165	\$395,384	0.5%	\$0.54
KUA	1,439,268	\$188,395,762	\$15,862,148	8.4%	\$11.02
Leesburg	463,376	\$59,075,284	\$5,212,257	8.8%	\$11.25
Newberry	34,113	\$4,040,798	\$202,040	5.0%	\$5.92
Ocala	1,224,368	\$143,366,578	\$6,718,647	4.7%	\$5.49
Starke	67,841	\$8,678,872	\$234,636	2.7%	\$3.46

* For some reason Beaches Energy was not included in the 2015 survey. WHH has included data from a prior survey performed several years ago.

Note the General Fund Transfer as a percentage of revenues (highlighted column). Except for the two outliers (Havana and Keys Energy), the General Fund Transfers of these cities range from a low of 2.7 percent to a high of 8.8 percent. Note that Havana does not impose a municipal services tax as do most municipalities. This tax is generally imposed at a rate of ten percent. Adjusting the rate of Havana’s transfer for the municipal services tax, results in their transfer falling closer to the range of other municipalities.

The median transfer is 7.3 percent and the average is 6.3 percent excluding the two outliers noted above. WHH suggests that ARP cities may not be representative of the Florida market as these cities are burdened with high costs of bulk power supply which has placed pressure on these cities to lower their General Fund Transfers in order to maintain reasonably competitive rates. Therefore, the transfers from ARP cities as a percent of retail revenues may be low relative to other non-ARP cities.

WHH also reviewed the transfers of Florida’s largest municipal utilities, JEA (formally Jacksonville Electric Authority) and Orlando Utilities Commission (OUC). Based on a review of FY 2015 financial statements and budgets, JEA transfers 6.4 percent and OUC transfers 6.2

percent. WHH places some weight on the practices of these two large municipal utilities since these utilities are governed by separate boards and the actual transfers are the result of negotiations between the utilities and the cities and presumably represent an equitable arrangement from the perspective of both the cities and the utilities.

Additionally, WHH has included the transfers from two other large municipal electric utilities that are not included in the FMPA survey. WHH has knowledge of these two utilities from previous work. These are Gainesville Regional Utility (fifth largest municipal utility in Florida) and Winter Park (thirteenth largest municipal utility in Florida). The General Fund Transfers are 8.2% and 6.0% respectively.

This information on General Fund Transfers is summarized in the table below.

Table 4.5
General Fund Transfer Analysis

Estimation Methodology	General Fund Transfer % of Revenues
Investor Owned Electric Utility Profitability	9-10%
Equivalent Proceeds to City from Sale of Electric Utility	8.1%
FMPA ARP Cities (median)	7.3%
Orlando Utilities Commission	6.2%
JEA (Jacksonville)	6.4%
Gainesville	8.2%
Winter Park	6.0%

WHH can only conclude that the appropriate amount of the General Fund Transfer absent some extenuating circumstances is in the 6-8 percent range. Based on the current budget, the electric enterprise will transfer 7.6 percent of revenues to the General Fund which is well within the practices of other utilities surveyed above. Therefore, WHH has included the budgeted amount of \$439,540 (net of G&A allocation) in the development of the revenue requirement.

Revenue Requirements Summary. The revenue requirements as developed in the previous paragraphs are summarized in the table below. This amount is the revenue that must be realized from the electric enterprise. The question now is, “Are current rates sufficient to generate this amount of revenue?” This will be analyzed in the next section.

Table 4.6
Revenue Requirements Summary

Budget Category	FY 2017 Budget
Bulk Power Supply Expenses	\$3,900,000
Electric Fund Expenses	\$560,821
Electric Capital Expenses (WHH pro forma amount)	\$350,000
Allocation of City A&G Overheads	\$508,715
General Fund Transfer (net of OH allocation)	\$439,540
Total Revenue Requirements	\$5,759,076

5. Revenue Sufficiency

As developed in the previous section, the revenue requirement for the electric enterprise in FY 2017 is **\$5,759,076**. However as previously noted, bulk power costs are recovered in the Purchase Power Cost Adjustment provision. Bulk power costs are estimated to be \$3,900,000 in FY 2017. Subtracting this amount from the Revenue Requirements results in **\$1,872,355** that must be recovered from other electric charges and base electric rates. Base electric rates consist of customer charges, energy charges and demand charges. WHH has estimated the revenues associated with each source below.

The City has budgeted the following Other Revenues for the electric enterprise for FY 2017 that will not be collected via electric rates

**Table 5.1
Other Revenues**

Revenue Category	FY 2017 Budgeted Amount
Connection Fees	\$25,000
Surge Protection Revenues	\$1,500
Pole Attachment Revenues	\$15,790
Other Revenues	\$550
Total	\$42,840

Customer charge revenues are based on the customer count used to develop the FY 2017 sales forecast and assumes that current customer charges are maintained. As developed in the table below, WHH forecasts customer charge revenues in FY 2017 at \$435,277.

**Table 5.2
Customer Charge Revenues**

Customer Class	Number Customer	Customer Charge	Annual Customer Charge Revenues
Residential	2,351	\$12.96	\$365,627
Commercial Non-Demand	297	\$17.28	\$61,586
Demand Class Commercial	16	\$42.00	\$8,064
Total			\$435,277

Forecasted energy charges are developed in the table below. Note that the total kW-hr sales equal the amount forecasted in the Sales Forecast Section of this report. Therefore, as developed in the table below, WHH forecasts that under the existing rates, the energy charge will yield \$1,054,130.

**Table 5.3
Energy Charge Revenues**

Customer Class	Forecasted Sales FY 2017	Current Energy Charge	Bulk Power Cost Included In Energy Charge	Energy Charge Less Bulk Power Cost	Annual Energy Charge Revenues For Base Rates
Residential	26,836,699	\$0.07660	\$0.04860	\$0.02800	\$751,427
Small Commercial	6,451,250	\$0.09060	\$0.04860	\$0.04200	\$270,953
Demand Class Commercial	6,350,081	\$0.05360	\$0.04860	\$0.00500	\$31,750
Total	39,638,000				\$1,054,130

The only remaining revenues from electric sales are from demand class commercial customers. The City only has 16 demand class commercial customers of which three are City facilities (City Water Plant, City Wastewater Plant and Well Number 3).

Demand charges are based on the peak usage during each month. The current rates are \$9.42 per kW for secondary metered customers. Primary metered customers receive a discount of \$0.15 per kW. Based on WHH’s analysis of historical billings, WHH has estimated the average demand charge realized at current rates are \$9.42 per kW. The development of forecasted FY 2017 demand charges is presented in the table below.

**Table 5.5
Demand Charge Revenues**

Customer Class	Forecasted Monthly Average Demand FY 2017	Demand Charge	Annual Demand Charge Revenues for Base Rates
Demand Class Commercial	2,094 kW	\$9.42	\$230,000

The forecasted revenues from the electric enterprise are summarized in the table below.

**Table 5.6
FY 2017 Electric Revenues Summary**

Other Revenues	\$42,840
Customer Charge Revenues	\$435,287
Energy Charge Revenues	\$1,054,130
Demand Charges Revenues	\$230,000
Purchased Power Revenues	\$3,900,000
Total Electric Revenues	\$5,662,257

As developed in the previous section, the electric enterprise has a revenue requirement of **\$5,759,076**. Therefore, at current rates, revenues generated by the electric enterprise will be **\$96,819** less than the revenue requirement as developed by WHH in the previous section.

WHH has proposed rate adjustments as detailed in the following section to recover the revenue shortfall.

6. Proposed Rate Revisions.

WHH proposes the following changes in the current base rates.

1. Increase Energy Charge for Residential Class Customers. As noted in the Peer Group Rate Comparison in Table 2.5 in Section 2, the comparative rates between Ft. Meade and the peer group were most favorable for the residential class. This suggests that any rate increases should be applied to the residential class first since the current rates are most comparable for this customer class. Therefore, WHH proposes that the energy charge for the residential class be increased by \$0.005 per kW-hr. from \$0.07660 per kw-hr to \$0.08160. This would increase the monthly bill for a customer using 1,000 kW-hrs. from \$124.56 to \$129.56, an increase of 4.0 percent. Although WHH is always reluctant to recommend rate increases, it is important to keep in mind that the current rates have been in effect since 2009 or for the past seven years. The proposed increase in residential bills would result in the peer group comparison for the residential class to change from 6.0 percent above the peer group average to 10.2 percent above the peer group average. The proposed change would recover \$134,183 in additional revenues.

2. Reduce Demand Charge Large Commercial Class. As noted in the Peer Group Rate Comparison in Section 2, the current rates for Ft. Meade were most unfavorable for the General Service Demand Class commercial customers. WHH has duplicated the summary table for that section below.

**Table 6.1
Rate Comparison Summary**

	Residential Class 1,000 kW-hrs Consumption	Non-Demand Commercial Class 1,500 kW-hrs Consumption	Demand Commercial Class 75 kW and 30,000 kW-hrs Consumption
Average Charges for Peer Group excluding Ft. Meade	\$117.54	\$187.82	\$2,872.62
Current Ft. Meade Charge	\$124.56	\$205.68	\$3,406.50
Percent Difference	+6.0%	+9.5%	+18.6%

The results of this summary table suggest that any rate reductions should be applied to the demand commercial class first since these current rates are most unfavorable for this customer class. WHH proposes that the demand charge for the demand commercial class customer class be reduced from \$9.42 per kW to \$8.50 per kW. This would decrease the monthly bill for a customer with a monthly demand of 75 kW \$69.00 and decrease the percentage difference for the demand class commercial customer to 16.1 percent from the peer group average. Also, note that the impending rate increase filed by FPL will further lessen the delta between Ft. Meade demand class commercial rates and the peer group average. Although this proposed change is modest it is a step in the right direction.

WHH generally opposes dramatic changes in rates. The proposed reduction in demand class revenues is estimated to be \$23,118 annually.

Note that the adoption of the two previous recommendations would result in additional annual revenues of \$111,065, which slightly in excess the revenue shortfall developed in the previous section of \$96,819.

Additionally, WHH has several other recommendations that will align the rate structure used by Ft. Meade with the industry in Florida. WHH has not estimated the revenue impact of these proposed changes as it may require some time to implement. For example, one change recommended below requires the modification of the billing system, which based prior experience, will require 6-12 months to implement.

3. Review Classification of General Service Demand Class Customers. WHH recommends that a critical review be made of the historical usage of the smaller demand class commercial customers. WHH believes that as many as eight of the existing general service demand class customer should, in fact, be general service non-demand commercial customers. WHH suspects that the following customers may be incorrectly classified as general service demand class commercial customers when in fact they should be classified as general service non-demand class commercial customers.

**Table 6.2
Demand Class Customers Potentially Eligible for Reclassification**

Customer Name	Account Number
City Water Plant	1450
Presco Food Store	7867
State of FL DEP*	9259
Peace River Packing	4457
Grocery Plus LLC	9123
Ft. Meade High School Air Cond Gym*	1513
Peace River Packing	877
Number 3 Deep Well	1454
Anna Woodbury Elementary	1493
Lewis Elementary School*	1500
Lewis Elementary School Café*	1503

WHH was unable to perform this review since historical demand data was not readily available due to change out of the billing system; however WHH and City staff have addressed several errors that occurred during change-out of the billing system. Additionally, it appears that one customer may have been billed in error for an extended period. WHH is working with City staff to resolve this issue.

4. Segmented Residential Energy Charge. As noted during the peer group rate comparison, all peer group utilities except Bartow, segment their energy charge, with a lower rate for the first 1,000 kW-hr consumption and a higher rate for all additional usage. This practice is the standard

rate structure for residential rates in Florida with all four of the peninsula Florida investor owned utilities in the state (Florida Power and Light, Duke Energy Florida, Tampa Electric Company and Florida Public Utilities) and most Florida municipal utilities (including Florida's largest municipal utilities, Jacksonville Electric Authority, Orlando Utilities Commission, Kissimmee Utility Authority, Gainesville Regional Utilities, Vero Beach and Ft. Pierce) segmenting the energy rate by consumption. Note the Peace River Electric Cooperative also segments the energy charge for the residential class. Generally, the difference in rates for usage below 1,000 kW-hr is \$0.0100 per kW-hr; however, Duke Energy Florida has a difference of \$0.0110 per kW-hr. and PRECO has a difference of \$0.0200 per kW-hr.

WHH proposes that Ft. Meade adopt the rate structure with segmented energy charges and proposes the following energy charges for the residential class. WHH proposes that the difference in energy rates between consumption less than 1,000 kW-hr and consumption greater than 1,000 kW-hrs be equal to \$0.0100 per kW-hr. Therefore, the proposed residential energy charge would be \$0.08160 per kW-hr. for all consumption by residential customers for the first 1,000 kW-hrs in any month and the proposed energy charge for all consumption by residential customers above 1,000 kW-hrs in any month would be \$0.09160 per kW-hr. The proposed rates would be consistent with the practice of most of Florida's electric utilities and the higher rate for increased consumption promotes conservation and protecting low income customers who typically use less electricity.

7. Peer Group Comparisons - Proposed New Rates

In this section, WHH has re-calculated the peer group rate comparison tables using the rate changes proposed in the previous section.

**Table 7.1
Residential Rate Comparison – Proposed New Rates**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$12.96	\$22.50	\$8.00	\$8.76	\$7.87
Energy Charge Tier 1 cent per kW-hr ²	\$0.08160	\$0.12074	\$0.04670	\$0.07006	\$0.05994
Energy Charge Tier 2 cents per kW-hr ²	\$0.09160	\$0.14074	\$0.04670	\$0.08368	\$0.07089
Fuel/Bulk Power Cost Adjustment Tier 1 cents kW-hr ³	\$0.03500	-\$0.12500	\$0.07000	\$0.02679	\$0.02173
Fuel/Bulk Power Cost Adjustment Tier 2 kW-hr ³	\$0.03500	-\$0.12500	\$0.07000	\$0.03679	\$0.03173
Bill 1000 kW-hr	\$129.36	\$138.59	\$124.70	\$111.95	\$94.91
Bill 1500 kW-hr	\$183.11	\$206.55	\$183.05	\$175.80	\$149.30

The average of the peer group for 1,000 kW-hr consumption is \$117.54 and the average for the peer group at 1,500 kW-hr consumption is \$178.68. The City’s new rates are comparable to the peer group average equaling 10 percent above the peer group average at 1,000 kW-hr consumption and 2.5 percent above the peer group average at 1,500 kW-hr consumption. As noted previously, FPL has filed for a 13% increase with the FPSC which will improve the comparison significantly. Note however this analysis does not included the proposed incremental charge for consumption above 1,000 kW-hrs. since the timing of this proposed change is uncertain.

WHH has included the Small Commercial (Non-Demand) Class comparison below. Note that WHH has not proposed any rate changes to this class of customer so therefore the table on the following page basically duplicates the comparison presented in Section 3.

**Table 7.2
Small Commercial Class Peer Group Rate Comparison – Existing Rates**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$17.28	\$25.00	\$8.00	\$11.59	\$7.75
Energy Charge cents per kW-hr	\$0.0906	\$0.13270	\$0.13777	\$0.07023	\$0.06407
Bulk Power Cost Adjustment cents per kW-hr	\$0.03500	-\$0.01250	\$0.07000	\$0.02973	\$0.02502
Bill 1500 kW-hr	\$205.68	\$225.68	\$204.50	\$171.22	\$149.87

The peer group average is \$187.82. Ft. Meade’s rates for this class is 9.5 percent above the peer group average although note that upon approval of FPL’s proposed increase in rates the difference will diminish.

The Large Commercial (Demand Class) peer group comparison is presented below.. Recall that WHH has proposed a reduction in the demand charge from \$9.42 per kW to \$8.50 per kW for this class.

**Table 7.3
Demand Commercial Class Peer Group Rate Comparison – Proposed New Rates**

	Ft. Meade	PRECO	Bartow	DEF	FPL
Customer Charge	\$42.00	\$100.00	\$20.00	\$11.59	\$20.24
Energy Charge per kW-hr	\$0.053600	\$0.087912	\$0.02980	\$0.02436	\$0.02259
Demand Charge per kW	\$8.50	\$8.25	\$8.83	\$10.28	\$10.42
Fuel Adjustment per kW-hr	\$0.03500	-\$0.01250	\$0.07000	\$0.03008	\$0.02501
Bill 75 kW and 30,000 kW-hr	\$3,337.50	\$3,159.98	\$3,406.25	\$2,560.74	\$2,363.52

The peer group average is \$2,872 for 75 kW and 30,000 kW- hr. consumption level. Ft. Meade’s proposed rate will be 16 percent above the peer group average although this will improve with the resolution of FPL’s rate filing. Although the comparison for this rate class is not favorable, one must recognize that the costs to serve this customer class is very dependent on bulk power supply costs. In fact slightly over 75 percent of the billing to this class of customers is bulk power supply. For comparison, the proportion of bulk power supply for the residential bill is about 66 percent.

**Table 7.4
Rate Comparison Summary**

	Residential Class 1,000 kW-hrs Consumption	Non-Demand Commercial Class 1,500 kW- hrs Consumption	Demand Commercial Class 75 kW & 30,000 kW-hrs Consumption
Average Charges for Peer Group excluding Ft. Meade	\$117.54	\$187.82	\$2,872.62
Proposed Ft. Meade Charge	\$124.56	\$205.68	\$3,406.50
Percent Difference New Rates	+7.0%	+9.5%	+16.0%
Percent Difference Old Rates	+6.0%	+9.5%	+18.6%

Additionally, note that WHH has proposed a review of the classification of large commercial customers. WHH suspects that this review will result in the reclassification of several of the 16 large commercial class customers into the small commercial class. Of course, this rate class has a more favorable rate comparison than the large commercial class so the net impact of the reclassification is to improve the relative rate comparison to the peer group.

Conclusions. The changes in retail rates accomplish the following:

1. Reduces demand charge to the large commercial class. Presently this customer class had the poorest rate comparison with the peer group. Therefore, one can conclude that revenues for this customer class were in excess of the appropriately allocated cost to serve. WHH believes that it is most important that retail rates are competitive for this class as these customers are the life blood of the community and competitive rates are necessary to attract and retain these large electric users. Although Ft. Meade only has a small number of large commercial customers, reasonably competitive rates are fundamental to attracting and retaining these large customers.
2. Increases residential class energy charge. This change addresses the fact that this class had the most favorable comparison to the peer group. Therefore, one can logically conclude that this rate class was not generating the revenues necessary to fully recover the fully allocated cost to serve. WHH notes that base rates for the residential class have not increased in seven years whereas the consumer price index has increased twelve percent.
3. Reclassification of some General Service Demand Class customers to General Service Non-Demand Class in order that the existing tariff is uniformly applied to all commercial customers. WHH suggests that Ft. Meade also review the criteria used to classify

customers as non-demand or demand class customers. WHH believes that the existing criteria is inconsistent with most Florida electric utilities.

4. Implement segmented or tiered energy charges for the residential class. The segmented energy rate structure is consistent with every other large electric utility in Florida and therefore this change brings Ft. Meade rates into the mainstream of the Florida electric utility industry.