

October 28, 2013

Ms. Nicolle M. Shalley
City Attorney
City of Gainesville
P.O. Box 490, Station 46
Gainesville, FL 32647

Re: Offer of Settlement; FPSC Docket No. 130188-EM

Dear Nicolle,

Enclosed herein is the Petitioners' Offer of Settlement for Florida Public Service Commission ("FPSC") Docket No. 130188-EM.

The FPSC encourages settlements between the parties to avoid the substantial time and expense associated with conducting a formal evidentiary hearing in Tallahassee. In furtherance thereof, a joint telephone conference was held between the Parties and FPSC staff on October 14, 2013.

During this joint teleconference, the Parties made a verbal agreement between counsel that the proposed settlement would be presented to the Gainesville City Commission for consideration and discussion at the City Commission meeting on November 7, 2013.

As the Gainesville City Commission is the ultimate decision maker with respect to accepting or rejecting any proposed settlement, my clients respectfully request that the City Commission affirmatively vote upon the proposed settlement at the meeting on November 7, 2013.

The proposed settlement is intended to provide the City Commission with additional information required to make well-informed decisions in the course of exercising management oversight of the utility and upholding the fiduciary duty owed to GRU customers. Given the controversy surrounding the actions of GRU management, my clients believe that the City Commission should not be averse to having such additional information or considering best management practices that protect the interests of GRU customers.

In good faith effort resolve the dispute currently pending before the FPSC while assisting the City in controlling its growing legal expenses related to GRU, my clients have proposed this settlement as a constructive alternative to the City continuing to spend approximately four hundred dollars per hour (\$400/hr.) for external legal counsel in the above referenced FPSC Docket.

In closing, my clients respectfully request that proposed settlement be presented to the Gainesville City Commission for consideration and discussion at the City Commission meeting on November 7, 2013.

Please feel free to contact me directly at (561) 222-7455 should you wish to further discuss the proposed settlement or have any additional questions.

Sincerely,

/s/ Nathan A. Skop
Nathan A. Skop, Esq.
Florida Bar No. 36540
420 NW 50th Blvd.
Gainesville, FL 32607
Phone: (561) 222-7455
E-mail: n_skop@hotmail.com

Attorney for Petitioners

Enclosure: Stipulated Settlement Agreement

Stipulated Settlement Agreement

WHEREAS, the undersigned Parties (“Parties”) to Florida Public Service Commission (“FPSC”) Docket No. 130188-EM desire to amicably resolve the controversy currently pending before the FPSC by entering into the Stipulated Settlement Agreement presented herein; and

WHEREAS, the Parties acknowledge that the FPSC has jurisdiction over the retail electric rate structure of municipal utilities pursuant to Section 366.02(2) and 366.04(2)(b), Florida Statutes; and

WHEREAS, the Parties acknowledge that the Cost of Service Study performed by Baker Tilley Virchow Krause, LLP (“Baker Tilley”) identified the retail electric rate structure inequities at issue in FPSC Docket No. 130188-EM; and

WHEREAS, approval of the Stipulated Settlement Agreement avoids the Parties incurring the substantial time and expense associated with participating in a formal evidentiary hearing before the FPSC to resolve the controversy between the Parties; and

WHEREAS, the Parties mutually agree that approval of this Stipulated Settlement Agreement by the Gainesville City Commission (“City Commission”) represents the best interests of GRU customers in furtherance of addressing the rate structure inequities at issue in FPSC Docket No. 130188-EM; and

WHEREAS, the Parties mutually agree that this Stipulated Settlement Agreement will be presented to the City Commission for consideration during the next regularly scheduled meeting on November 7, 2013; and

WHEREAS, upon the approval and execution of this Stipulated Settlement Agreement by the City Commission, Petitioners agree to file a voluntary dismissal, without prejudice, of the complaint in FPSC Docket No. 130188-EM.

NOW THEREFORE, for and in consideration of the covenants and obligations contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned Parties hereby agree to the terms of this Stipulated Settlement Agreement as follows:

1. The City Commission shall hire Baker Tilley as its independent consultant to update the GRU Electric Cost of Service Study previously prepared by Baker Tilley for a projected 2015 and projected 2016 test year. In addition to considering the existing three-tier residential rate structure, Electric Cost of Service Study shall include recommendations evaluating the adoption of a two-tier residential electric rate structure with consideration and discussion of the two-tier residential electric rate structure currently used by Florida Power & Light

Company (“FPL”) pursuant to the most recent FPL tariff filed with the FPSC. Baker Tilley shall review and consider all GRU budget and financial data relevant to preparing the Electric Cost of Service Study including, but not limited to, the following:

- a. The GRU Budget for 2014 as approved by the City Commission;
- b. Utilization of the Fuel Overcharges;
- c. Purchase of the Biomass Plant (evaluating the resulting impact to base rates, fuel charges, and taxes);
- d. Existing and Projected Additional Debt service obligations under Bond Covenants;
- e. Reserve Fund requirements;
- f. General Fund Transfers;
- g. Existing Wholesale Power Contracts;
- h. Review of Interchange Revenue and Interchange Fuel Expense (budget vs. actuals);
- i. Capital Improvements;
- j. Validation of projected revenue and expenses from the South Energy Center agreement;
- k. Review of Innovation Square infrastructure expenses incurred to date in relation to cross-subsidization and intergenerational inequity issues.

Baker Tilley shall independently evaluate the sale of electricity under existing wholesale power contracts on a full cost recovery basis (capital recovery; depletion; O&M; fuel cost; etc.) in relation to the cross-subsidization inequities resulting from the incremental cost basis analysis presented in the prior Cost of Service Study performed by Baker Tilley.

In performing the Electric Cost of Service Study, Baker Tilley shall maintain full independence from GRU management and provide its report and recommendations directly to the City Commission. The City Auditor shall serve as City Commission’s (Client) point of contact with respect to Baker Tilley’s performance under the engagement letter and shall exercise his independent judgment in providing any guidance requested by Baker Tilley during the performance of the engagement.

GRU shall provide Baker Tilley with all data necessary to complete the Electric Cost of Service Study. While exercising its independent judgment, Baker Tilley shall have the ability to interview GRU management and staff as it deems necessary and appropriate.

GRU management shall not review any draft reports prepared by Baker Tilley nor direct Baker Tilley to make changes to its findings or recommendations. Upon filing the Electric Cost of Service Study report with the Clerk of the City Commission (“Clerk”), GRU may review the report and file a management

response to the findings and recommendations presented within the Baker Tilley Electric Cost of Service Study.

Baker Tilley shall file the Electric Cost of Service Study report with the Clerk no later than April 30, 2014, or as soon thereafter as may reasonably be accomplished pursuant to the terms of the engagement letter. The City Commission shall hold a Special Meeting to review and discuss the findings and recommendations presented within the Baker Tilley Electric Cost of Service Study no later than one month after receipt of the report by the Clerk. The Baker Tilley representative or representatives involved in preparing the Study shall attend the Special Meeting. At the Special Meeting, the City Commission shall provide Petitioners' counsel adequate time (not to exceed 60 minutes) to ask Baker Tilley any questions regarding the Electric Cost of Service Study immediately following the conclusion of Baker Tilley's presentation at the Special Meeting.

2. The City Commission, after conducting one or more public meetings subsequent to the Special Meeting required by Paragraph 1 above, but no later than but no later than June 30, 2014, shall consider, adopt, and implement a strategic policy directing GRU to remedy any rate structure inequities identified within the Electric Cost of Service Study prepared by Baker Tilley. The aforementioned policy may include provisions relating the affordability of rates, minimizing cross-subsidization, pricing of wholesale power contracts, and other issues that the City Commission may deem appropriate. GRU shall incorporate the policy adopted by the City Commission in the preparation of the two-year GRU budget for 2015 and 2016.
3. The City Commission shall direct GRU management to renegotiate the pricing of the Alachua Wholesale Electric Power Contract at the earliest possible opportunity (2016), pursuant to Seller's rights under the Amended Contract.
4. The City Commission shall be required to approve all contracts for the sale of electricity or utility services to any third party. All contracts for the sale of electricity or utility services shall be presented as an item on the regular agenda for the City Commission meeting at which approval of the contract is sought and shall not be placed on the consent agenda. GRU shall post a complete, unredacted copy of the proposed contract as backup to the Legistar item no later than five (5) days prior to the Commission meeting at which approval is sought. For electricity contracts, the required backup information provided by GRU shall include pricing and terms of recent power purchase contracts within the State of Florida as benchmark comparisons to the proposed contract.
5. Pursuant to the existing written recommendation of the City Attorney, and prior to January 31, 2014, the City Commission shall direct GRU to propose revisions to the city ordinance relating to fuel charges. To minimize additional upward pressure on electric rates, the City Commission shall consider amending the

ordinance to mirror the fuel cost recovery methodology and midcourse correction rule adopted by the FPSC as an alternative to charging customers for the purposes of maintaining a fuel adjustment charge levelization fund balance. Implementing the proven FPSC methodology would allow GRU to benefit from the timely recovery of fuel costs at a lower overall cost to GRU customers because the FPSC methodology (i.e., recovery of budgeted fuel costs plus prior year true-ups) does not utilize excess fuel charges to maintain a reserve fund balance. The City Commission shall adopt the revisions to the city ordinance relating to fuel charges no later than March 31, 2014.

[Insert Signatures on Following Page]

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished to the parties of record indicated below via electronic mail on October 29, 2013:

s/ Nathan A. Skop
Nathan A. Skop, Esq.
Florida Bar No. 36540
420 NW 50th Blvd.
Gainesville, FL 32607
Phone: (561) 222-7455
E-mail: n_skop@hotmail.com

Attorney for Petitioners

<p>Holland & Knight D. Bruce May, Jr. 315 South Calhoun Street, Suite 600 Tallahassee, FL 32301 Phone: (850) 425-5607 Fax: (850) 224-8832 E-mail: bruce.may@hklaw.com</p>	<p>City of Gainesville d/b/a/ Gainesville Regional Utilities</p> <p>Ms. Nicolle M. Shalley City Attorney P.O. Box 490, Station 46 Gainesville, FL 32647 Phone: (352) 334-5011 Fax: (352) 334-2229 E-mail: shalleynm@cityofgainesville.org</p> <p>Ms. Shayla L. McNeill P.O. Box 147117, Station A-138 Gainesville, FL 32614-7117 Phone: (352) 393-1010 Fax: (352) 334-2277 E-mail: mcneillsl@gru.com</p>
---	--