

Clearwater Gas System

Comprehensive Natural Gas Utility Rate Study



Agenda

1. Introduction
2. Rate Study Process
3. Financial Plan
4. Cost of Service Analysis
5. Rate Recommendations

Rate Study Process

Financial Plan

1

Key Outcome – revenues that sustainably fund the ongoing provision of safe and reliable natural gas service and provide a rate of return to the City which is reasonable/competitive with peer utilities.

2

Cost of Service Analysis

Key Outcome – revenue recovery from each customer class that reflects that class's use of the gas system.

3

Rate Design

Key Outcome – rates which reasonably align with class cost of service and meet the objectives of the City of Clearwater.

Financial Plan

Key Drivers - Revenue

1. Customer and Usage Forecast
2. Baseline around 26,000 natural gas customers and 1,900 propane customers
3. Forecast usage based on historical usage per account and customer growth
4. Forecast adding just over 1,200 customers per year
 - a) Strategic plan targets approximately 2,000 customers annually
 - b) We are being conservative based on uncertain conditions arising from COVID-19

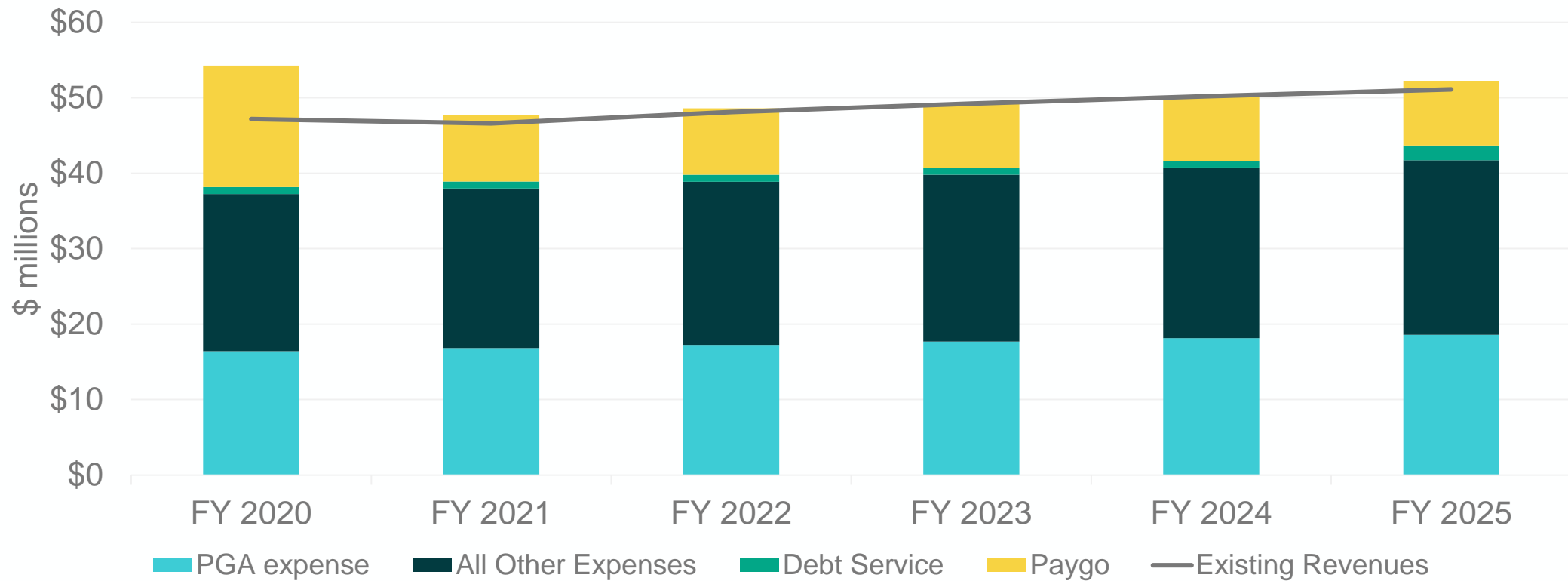
Financial Plan

Key Drivers – Expenses

1. Operating Expenses Forecast
 - a) Forecasting Expenditures based off 2020 Budget
 - b) Using a 2.5% inflation rate for forecast
 - c) Using a budget spend factor of 95% since actuals are historically lower than budgeted expenses
2. Capital Expenditures
 - a) Planning to spend roughly \$8.5m-\$8.8m annually (\$16.1m in 2020 for Campus Rebuild)
 - b) Cash funding these projects (pay-go-capital)

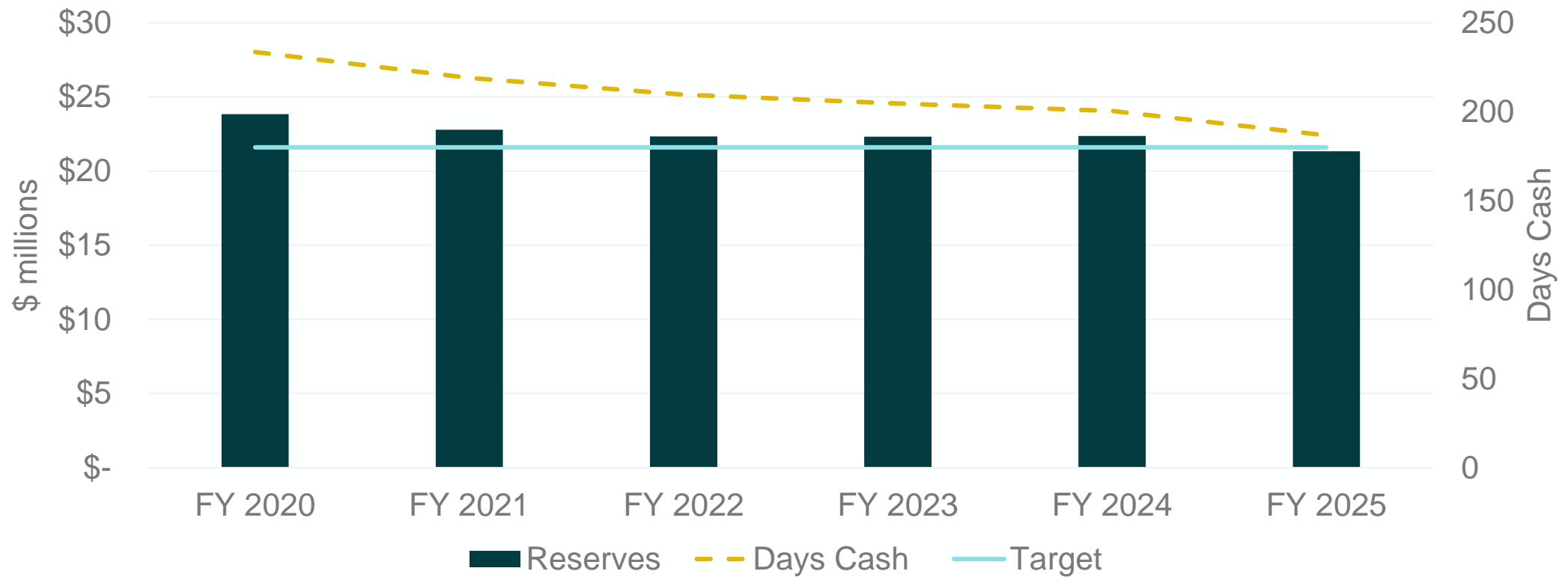
Financial Plan

Cash Flow Forecast



Financial Plan

Reserve Balance



Financial Plan

Return on Rate Base

1. Return on Rate Base is a key metric for regulated utilities
2. Calculated based on after tax operating income divided by rate base, or asset net book value
3. Current ranges between 6.0 – 7.0%
4. Projected Return on Rate Base for the City is slightly lower but within comparable range to regulated utilities

Key Findings and Recommendations

Financial Plan

1. Key Findings

- a) Current revenues appear to be adequate to fund test year revenue requirements
- b) Liquidity position is strong but projected to decline toward minimum targets over the next several years
- c) Projected return on rate base is lower but within comparable range to regulated utilities. However, conservative growth projections and significant increase in rate base are contributing factors

2. Recommendation

- a) Maintain rates at current levels
- b) Carefully monitor liquidity and financial performance, particularly due to economic uncertainty from COVID-19

Cost of Service Analysis

Process, Findings and Recommendations

1. Process – Allocate costs to customer classes based on:

- a) Commodity (Average Usage)
- b) Capacity (Peak Day Usage)
- c) Customer (Readiness to Serve)

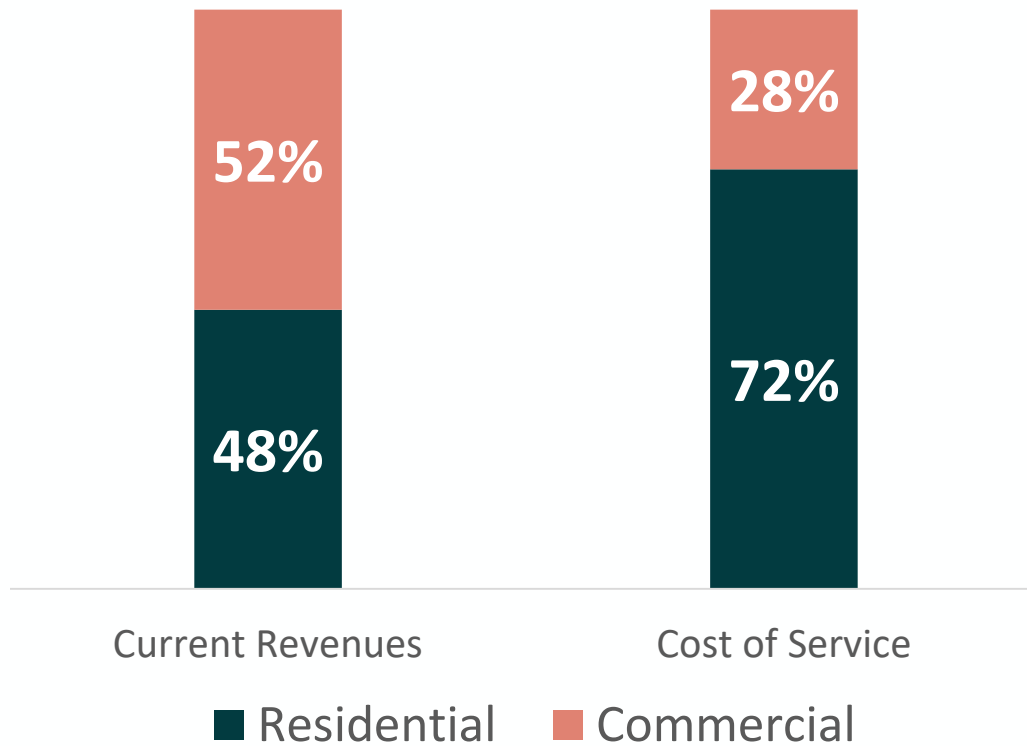
2. Findings

- a) Single-family residential customers subsidized by other customer classes
- b) Not an uncommon result and consistent with prior studies
- c) Cost to distribute gas (i.e., excluding gas purchases) is largely fixed, based on making service available to customers.

3. Recommendations

- a) Shift revenue recovery from commercial to residential
- b) Employ a phase-in approach

Cost of Service Analysis



Revenue Adjustment to Achieve Cost of Service:

Residential: +59%

Commercial: -44%

We recommend a “phase-in approach”

Rate Recommendations

PGA and Riders

1. Purchased Gas Adjustment (PGA)
 - a) Remove customer service costs
 - b) Remove ECA under-recovery
2. Energy Conservation Adjustment (ECA)
 - a) Remove customer service costs
 - b) Calculate based on customers who pay it
3. Regulatory Imposition Adjustment (RIA)
 - a) Remove customer service costs
 - b) Maintain at \$0.00 until current surplus is exhausted
4. Usage and Inflation Adjustment: Adjust based on normalized use per account and CPI

Rate Recommendations

Base Rates

1. Customer charge
 - a) Increase single family by \$4.00 / month
 - b) Hold all others constant
2. Commodity Charges
 - a) Reduce commercial commodity charges by \$0.04 / therm
 - b) Hold all others constant
3. Reevaluate cost of service in 2 years to determine if further adjustments are warranted.

Rate Recommendations

Existing and Proposed Rates

Customer Class	Customer Charge (\$/Month)*		Commodity Charge (\$/Therm)	
	Existing	Proposed	Exist	Proposed
Single Family	\$12.00	\$16.00	\$0.44	\$0.44
Small Multi-Family	\$25.00	\$25.00	\$0.44	\$0.44
Medium Multi-Family	\$40.00	\$40.00	\$0.44	\$0.44
Large Multi-Family	\$95.00	\$95.00	\$0.44	\$0.44
Small Commercial	\$25.00	\$25.00	\$0.42	\$0.38
Medium Commercial	\$40.00	\$40.00	\$0.38	\$0.34
Large Commercial	\$95.00	\$95.00	\$0.34	\$0.30

*Recommend that surcharge for Central Pasco customers remain in place.

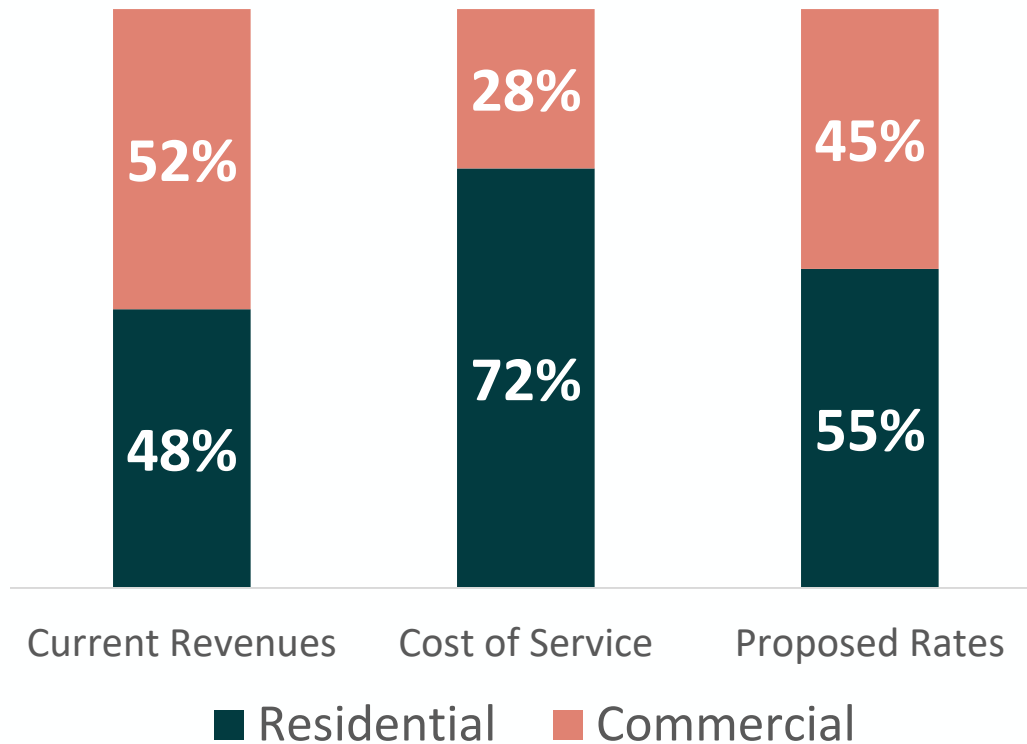
Rate Recommendations

Peer Utility Comparison

Customer Class	Clearwater		People's Gas		Central Florida	Florida City Gas	Florida Public Utilities
	Existing	Proposed	Existing	Jan 1, 2021			
Single Family Customer Commodity	\$12.00 \$0.44	\$16.00 \$0.44	\$14.25 \$0.25	\$18.10 \$0.27	\$19.00 \$0.46	\$12.00 \$0.46	\$11.00 \$0.50
Small Commercial Customer Commodity	\$25.00 \$0.42	\$25.00 \$0.38	\$33.26 \$0.25	\$45.00 \$0.31	\$34.00 \$0.32	\$25.00 \$0.38	\$33.00 \$0.39
Med Commercial Customer Commodity	\$40.00 \$0.38	\$40.00 \$0.34	\$47.52 \$0.22	\$82.00 \$0.27	\$108.00 \$0.24	\$35.00 \$0.34	\$90.00 \$0.35
Lrg Commercial Customer Commodity	\$95.00 \$0.34	\$95.00 \$0.30	\$142.55 \$0.19	\$420.00 \$0.22	\$600.00 \$0.15	\$150.00 \$0.33	\$90.00 \$0.35

Rate Recommendations

Revenues Under Proposed Rates



Revenue Adjustment Under Proposed Rates

Residential: +21%

Commercial: -9%

Reflects “phase-in” approach

Rate Recommendations

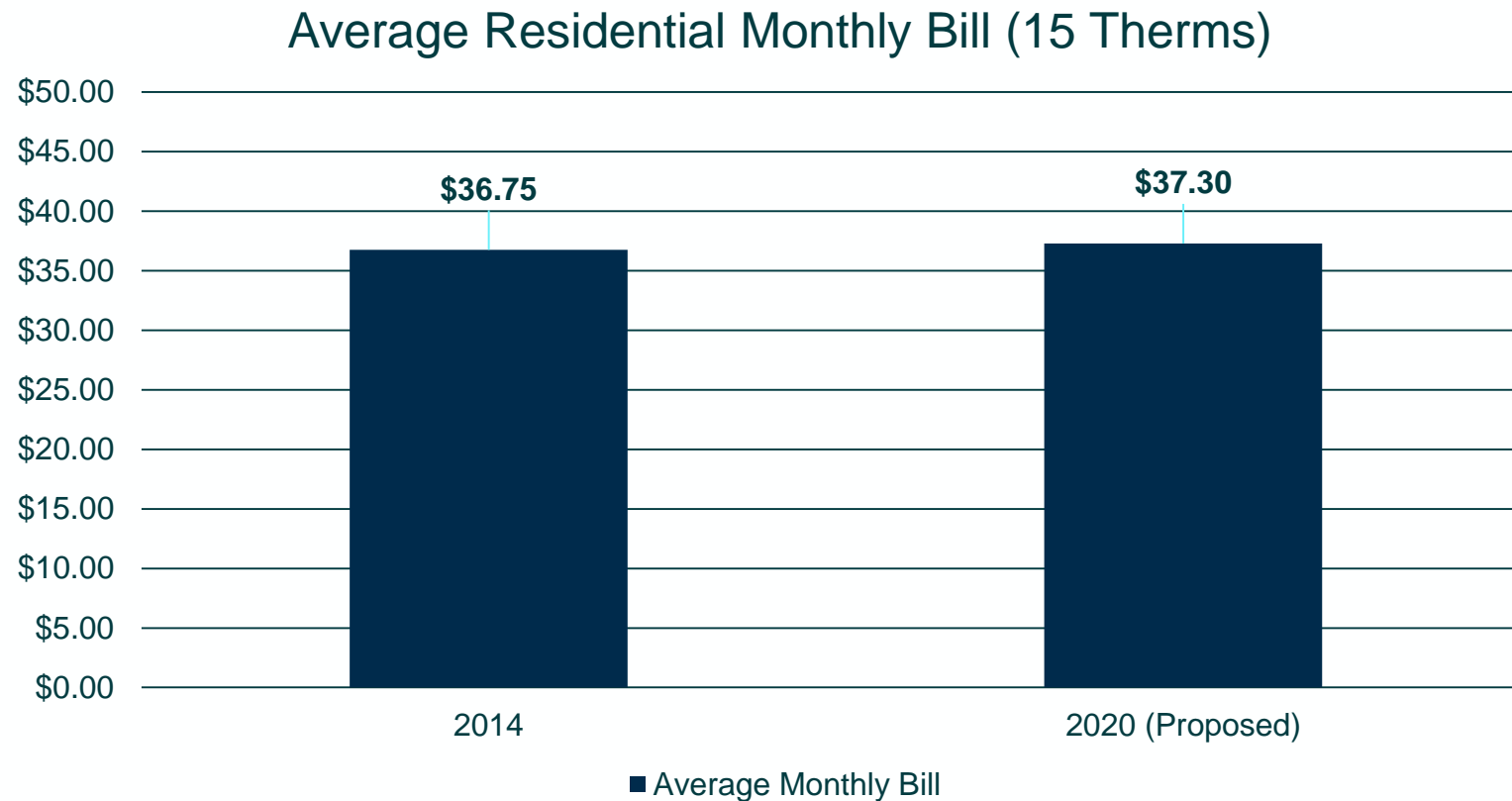
Bill Impacts*

Customer Class	Usage (Therms)	Existing	Proposed	\$ Change
Single Family (Summer)	10	\$25.80	\$29.80	\$4.00
Single Family (Winter)	30	\$53.40	\$57.40	\$4.00
Small Multi-Family	50	\$94.00	\$94.00	No Change
Medium Multi-Family	2,600	3,628.00	\$3,628.00	No Change
Large Multi-Family	n/a	n/a	n/a	n/a
Small Commercial	350	\$522.00	\$508.00	-\$14.00
Medium Commercial	2,500	\$3,490.00	\$3,390.00	-\$100.00
Large Commercial	11,000	\$14,835.00	\$14,395.00	-\$440.00

*For illustration purposes, assumes no change from most recent month PGA and riders.

Rate Recommendations

Historical Comparison





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Thank you!

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