2015 ANNUAL REPORT

# Achieving the Vision

# General Manager's Message

Commitment to our business strategies led to remarkable success for Garland Power & Light in 2015. Our numerous accomplishments will ensure future revenue opportunities and help us better serve our customers.

Advocacy efforts during the Texas Legislative Session produced favorable outcomes on crucial legislative decisions that support GP&L's business endeavors. The passage of Senate Bill (SB) 776 was a victory for Garland and the other Texas Municipal Power Agency (TMPA) Member Cities, as the bill includes flexibility in planning for possible restructuring or dissolution of TMPA in the future. Additionally, several provisions in SB 776 will benefit GP&L as we develop transmission projects outside of Garland.

We were also successful in amending SB 933 to include an expedited review process by the Public Utility Commission of Texas (PUCT) to support our participation in the Rusk-Panola Transmission Project. Other than these key bills, we closely monitored legislation affecting municipal utilities.

In managing both revenues and costs, GP&L outperformed the year's goals. External business initiatives continued to bring valuable income, and expenditures came in under budget. We shared this success with Garland customers by approving a 7 percent reduction in the Recovery Adjustment Factor component of our electric rate. This decrease keeps our rates competitive and was made possible by the dedicated efforts of all GP&L employees.

We welcomed wind energy into our resource portfolio when Spinning Spur 3 began commercial operations in September. To further expand GP&L's renewable resources, we signed another long-term power purchase agreement for wind that will come online in 2016.

Locally, we worked closely with the City in support of economic development. I am proud that GP&L's service reliability and affordable electric rates were factors in attracting RagingWire Data Centers to Garland.

Looking forward, we will prepare for the 2017 Texas Legislative Session by participating in interim committee discussions promoting municipal electric utility positions and initiatives. We will also follow up on legislation passed in 2015 by participating in the PUCT's rulemaking projects on provisions of SB 776.

As our efforts to keep electric rates stable and competitive continue, so does our consideration of cost-effective renewable power projects. We will seek additional opportunities to expand our renewable portfolio in the coming year.

Jeff Janke
General Manager & CEO

# Advancing Our Initiatives

Steadfast dedication to ensuring stable and competitive electric rates for local customers drives Garland Power & Light to expand its business beyond traditional utility service. Unique to the utility is a power marketing strategy that balances the sale of energy with the purchase of affordable power from external resources, as well as the use of GP&L-owned resources. In 2015, the ongoing success of these initiatives, lower energy market costs, and new financing strategies allowed GP&L to reduce power costs for its residential and commercial customers.

In September, GP&L approved a decrease in the Recovery Adjustment Factor component of the electric rate, effective October 1, 2015. With the reduction, residential customers using an annual average of 1300 kWh per month will see monthly bills decrease 7 percent on average and save $9.75 per month, or $117 annually. This change ensures that GP&L's rates stay competitive with those offered by deregulated electric providers in the Dallas-Fort Worth Metroplex and other statewide public power systems.

Transmission projects, both in and outside of Garland, continue to benefit the utility. A full Transmission Cost of Service (TCOS) rate filing was approved by the Public Utility Commission of Texas (PUCT) in February. This filing provides for rate recovery of investments made in GP&L transmission projects, including the utility's portion of the Competitive Renewable Energy Zone (CREZ) transmission lines in West Texas and the Nevada Substation. The new rate set by the filing results in a significant increase in GP&L's annual transmission revenue.



Additionally, an interim TCOS filing submitted in September will provide for rate recovery on upgrades to the Wynn Joyce Substation and other transmission facilities.

Discerning financial decisions made in 2015 will save GP&L ratepayers money in coming years. As GP&L pays down Garland's portion of the generation debt for the Texas Municipal Power Agency (TMPA) Gibbons Creek Power Plant, the utility took the opportunity to refund a portion of the debt. This portion of the debt will be paid over a five-year period, which improves cash flow.

Looking to the future of TMPA, GP&L began working with the cities of Bryan, Denton and Greenville to develop a joint operating agreement that will provide a contractual structure for TMPA's future operations. The agreement will also set forth specific terms and procedures for possible sale or distribution of TMPA assets.

Locally, cost management within all GP&L business functions proved effective. For example, outstanding maintenance efforts by Production ensured that the reduction in expenditures did not hinder reliability at GP&L's plants; peak season availability for the Olinger and Spencer power plants averaged 98.5 percent.

GP&L proudly began providing its customers with wind energy from the Spinning Spur 3 wind farm west of Amarillo. Through a long-term power purchase agreement, this project provides GP&L with up to 50 megawatts of competitively-priced wind power, about 10 percent of the utility's energy needs.

GP&L continued to expand its resource portfolio by signing a power purchase agreement for 150 megawatts of power from the Salt Fork wind farm, located east of Amarillo. After Salt Fork begins commercial operations in December 2016, Garland will utilize up to 35 megawatts, and has contracted to sell the balance to other municipal utilities and electric cooperatives.

The wholesale power supply and Qualified Scheduling Entity (QSE) services business experienced another year of growth. The superior service provided to wholesale utility customers has built a loyal—and growing—client base. The city of College Station was brought on as a power supply and QSE services client, and GP&L's dependability as a generator operator led to the extension of the utility's QSE services contract with Greenville Electric Utility System.

Participation in revenue-producing transmission projects continues to be a focus for GP&L. The utility's effective advocacy efforts at the Texas Legislative Session support GP&L's participation in the Rusk-Panola Transmission Project, which is part of a larger endeavor by Southern Cross Transmission to interconnect the Electric Reliability Council of Texas (ERCOT) at the Texas-Louisiana border to the Southeastern Electric Reliability Council in northeast Mississippi and northwest Alabama.

Development of the Houston Import Project moved forward this year following the ERCOT's approval of GP&L's involvement in the transmission project. PUCT approval of the certificate of convenience and necessity is expected in early 2016. GP&L will earn revenue through its ownership of approximately 25 percent of the 127-mile line, which will improve electric reliability in Southeast Texas and the ERCOT grid.

# Serving Our Customers

GP&L is committed to serving its Garland customers, whether by ensuring reliable electricity, offering programs and services, or improving customer assistance.

Among GP&L's local customers are more than 30 key accounts, including large industrial, educational and medical facilities. The utility's service to key account customers goes beyond providing power; GP&L is highly interactive and accessible, consulting with these customers to improve their energy efficiency and best meet each company's unique needs.

In 2015, GP&L facilitated the participation of three of these customers in ERCOT's Emergency Response Service (ERS) program. Through ERS, these businesses are financially compensated for nominating a specific power load amount that can be reduced at ERCOT's request during times of power scarcity in Texas.

In addition to these customers, GP&L also worked with Garland Water Utilities to utilize five backup generators at the City's water pump stations for ERS. If called upon by ERCOT, each backup generator is able to power its station while also providing excess power to the grid.

GP&L also promotes conservation through the EnergySaver Program, which provides utility bill credits to homeowners and businesses who make qualifying energy efficiency upgrades. A total of 438 customers participated in the EnergySaver Program this year, with 21 installing solar photovoltaic systems.

Distribution construction completed this year supported growth in Garland. GP&L installed electric service to the new Heron's Bay II and Winchester Commons subdivisions. Service was also set up to power the new WinCo Foods grocery store at Centerville Road and Interstate 635.

To provide reliable power to some critical City of Garland departments that were not in GP&L's service area, the utility assumed service to the Fire Administration and Emergency Management & Information Technology facilities. The transfer included gaining approval from the PUCT, designing the project with service redundancies, and replacing all of the Oncor distribution equipment at the site with GP&L equipment.

The capabilities of GP&L's Responder Outage Management System were significantly improved through upgrades that allow for better customer service. Use of the program's map feature was extended to call center representatives, enabling them to see the outage areas online. Also added to the program were an automated callback feature to confirm with customers that their power has been restored, and a Caller ID feature that allows electric grid controllers to see caller information without having to access a separate database.

# Strengthening Our Electric System

As a recognized leader in compliance, GP&L went beyond fulfilling the industry's extensive regulatory requirements. The utility worked diligently to ensure ongoing compliance and future stability of its electric system.

To facilitate the operations of the utility's Regulatory & Compliance and Transmission Engineering groups, 20 employees moved to a newly renovated office in Downtown Garland. Since these groups frequently interact, the move to a central location enhances collaboration, communication and efficiency.

As evidence of GP&L's expertise in regulatory compliance, employees continued to participate on numerous industry committees, working groups and task forces at both the state and national levels. Some share their knowledge by developing physical and cybersecurity training programs for members of the North American Electric Reliability Corporation (NERC) Security Training Working group, or by giving presentations at ERCOT and other industry conferences.

In preparation for future audits, GP&L experts have developed a program to assess risk levels and ensure compliance across the utility. Through the Risk Internal Controls Enforcement program, GP&L is formally documenting the internal controls needed to comply with NERC's reliability standards.

As part of the program, work groups participated in process flow diagramming to map and record exact workflows for activities that represent the highest risk to the electric system, according to auditors. System Operations documented several functions in anticipation of a 2016 NERC Transmission Operator Audit, and notebooks were created to assist Transmission & Distribution documentation for compliance with NERC requirements.

In the field, GP&L continued to enhance physical security in several locations. At the Transmission Operations Yard, which contains vehicles, tools and supplies, an anti-cut, anti-climb and anti-scale 10-foot security fence was installed to deter intruders. Other security enhancements at GP&L facilities include new cameras and access control devices.

This year, Production renewed permits for GP&L's Spencer Power Plant, including the air emission permit from the Texas Commission on Environmental Quality (TCEQ). In addition, the city of Denton granted a renewal of the plant's industrial wastewater permit.

Anticipating construction of a RagingWire Data Center near Lookout Drive and the President George Bush Turnpike, GP&L developed plans for additional transmission facilities to serve the area. The new Lookout Substation will include a transmission interconnect to a neighboring utility, as well as customer-owned facilities.

Looking to the future, GP&L revalidated its 10-year transmission construction plan through in-depth transmission studies. This confirmation ensures that GP&L's long-term plans will meet the area's electric service needs.

# Ensuring Reliability

Throughout the year, GP&L completed numerous upgrades and improvements in support of reliability. These projects spanned both the utility's electric infrastructure and operating processes.

For customers in South Garland, GP&L's reconstruction of the Wynn Joyce Substation enhanced reliability by providing system service and redundancy. Extensive work went into the project, including the installation of a temporary transmission bypass, demolition of the old facilities, and a rebuild of the substation from the ground up. Distribution service from Wynn Joyce was upgraded from five to six feeders.

In another important transmission project, the utility completed the second year of a three-year program to replace 138kV breakers, by changing out nine during 2015.

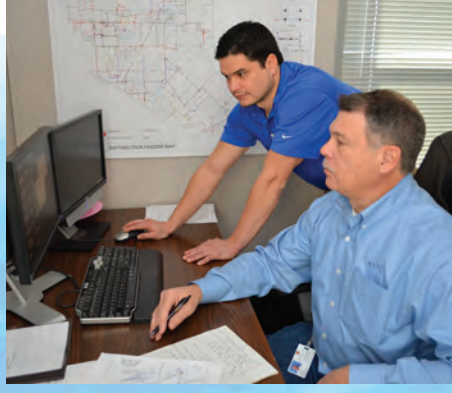
To improve the function, longevity and appearance of streetlights throughout Garland, GP&L began a seven-year program to replace its high pressure sodium streetlights with light emitting diode (LED) lights and new poles. Starting in the southern part of the City, both median and residential streetlights will be changed out. The LEDs have a significantly longer life span and will use about two-thirds less energy.

Along with the new lights, GP&L began using Remote Operations Asset Management (ROAM), a management and control system that provides full remote control over the streetlights. Crew leaders can view the operating status of each light on a digital map to more easily determine maintenance needs.

Throughout Garland, GP&L completed several large distribution projects. To accommodate the Pleasant Valley Road widening project, crews relocated electric service, including 5,500 feet of underground cable, a three-way pad mount switchgear, and manholes. On Miller Road, 55 poles and 25,000 feet of conductor were replaced on the Shiloh-5 feeder.

As part of a preventive maintenance program, 80 wooden poles and conductor cable were replaced in alleys. The utility's program to change out aging underground distribution cable also continued, with the replacement of more than 80,000 feet of cable.

To improve situational awareness of electric systems beyond the transmission facilities operated by GP&L, the utility began a project to bring real-time data points of neighboring substations into the Supervisory Control and Data Acquisition (SCADA) system. This provides electric grid controllers greater visibility of bulk electric system conditions within ERCOT, and awareness of potential issues that could affect GP&L's electric system as well as the stability of the ERCOT grid.



System information in SCADA was made more accessible with the creation of a report template that can be run by Substation and Engineering employees. The reports are used for planning, compliance, engineering analysis and troubleshooting.

This year, GP&L completed an extensive inventory of all Substation assets, such as switchgear, transformers and circuit breakers. All equipment was physically assessed and recorded to confirm the full accuracy of GP&L's register.

For other equipment and consumables, an upgrade of the Transmission & Distribution tool room inventory system enables improved tracking through the use of barcodes and a database. The enhanced program includes inventory reordering, equipment checkout, and reporting features.

Two new employee positions in Transmission & Distribution have also improved GP&L's operations and reliability. The fleet specialist provides added focus to the group's vehicle procurement and maintenance, while the vegetation management specialist ensures right-of-way maintenance and tree trimming.

Updates to GP&L's Geographic Information System (GIS) provided several benefits, including a data conflict resolution feature, which automatically attempts to resolve data discrepancies based on programmed rules. The upgrade also promoted consistency across the Responder Outage Management, Workforce Management and Designer systems, improving efficiency and accuracy among the departments that use these programs.

The Energy Services Division was active this year, completing several significant projects to ensure the reliability of the utility's generating facilities. Together, Production employees and QSE operators developed an in-depth winter weatherization plan for GP&L's power plants. The plan includes processes for communicating resource needs and availability between the two work groups.

Also improving communication within Energy Services is an electronic status board, which pulls information from multiple sources to help employees monitor activity at the plants and coordinate resource status. The board ensures that data is accurately communicated between Production and QSE operators.

At the Spencer Power Plant, Unit #4 cooling tower repairs restored the tower to original engineered status, and improved the unit's efficiency and reliability. Other plant maintenance efforts included steam turbine control valve overhauls on Olinger Unit #2, and Spencer Units #4 and #5.

# Supporting Our Workforce

Employees serve the utility in many ways, from maintaining and operating the utility's electric system and power plants, to administration and financial planning. GP&L supported employees this year with equipment and opportunities that improve employee safety and productivity, and promote career advancement.

A reclassification of power plant employees fully recognized expanded skill sets developed through a successful cross-training program. Job titles of 17 power plant maintenance and operations employees were reclassified to Production Technician I. This change is in line with the industry practice of having multi-skilled Production employees, and ensures more accurate job comparisons during market compensation studies.

Two production qualification programs will give these employees the opportunity to advance to Production Technician II. The Operations Qualification Program was implemented this year, and the Maintenance Qualification Program will begin next year.

Both QSE and electric grid operators participated in ongoing training to retain their NERC certifications, completing 200 continuing education hours over a three-year period. To meet ERCOT compliance, these employees took part in the annual ERCOT Operations Training Seminar and Black Start training.

In October, 40 employees from across GP&L attended an in-depth class to develop their knowledge of the ERCOT market. Topics included calculation of nodal prices and transmission congestion values, and ERCOT's newly instituted Operating Reserve Demand Curve.

In the Transmission & Distribution Division, changes to Occupational Safety and Health Administration (OSHA) safety rules prompted the adoption of new fall protection equipment, traffic vests with higher arc ratings, and rain gear color-coded to indicate the arc rating.

A program developed this year will give GP&L linemen college credit for on-the-job training after completing the seven-step apprentice program and receiving a journeyman lineman certificate. This credential counts as 34 credits toward a 60-credit Lineworker Associate Degree in Applied Science from Bismarck State College.

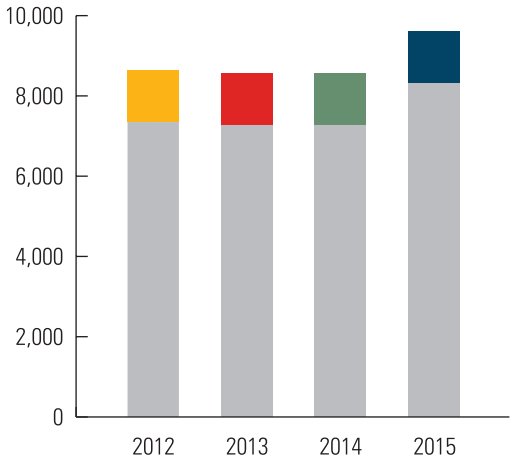
Workplace improvements at System Operations were designed to support employee performance. The electric grid controllers' work stations are now sit-stand desks, which improve ergonomics. The control room also received a new overflow workspace, new chairs and upgraded monitors. Carpet and sound-absorbing ceiling tiles were installed to reduce the noise level.

Several projects in the Technology Services Division enhanced employee productivity across the utility. New blade servers increased the availability of applications, including web and email. New storage technology was implemented to improve the reliability and performance of the information technology infrastructure. Should a physical server fail, the new technology will help the system recover quickly. For desktop users, new troubleshooting software will reduce employee downtime by allowing PC technicians to solve problems remotely.

# Performance Indicators

Fiscal Year Ended September 30th

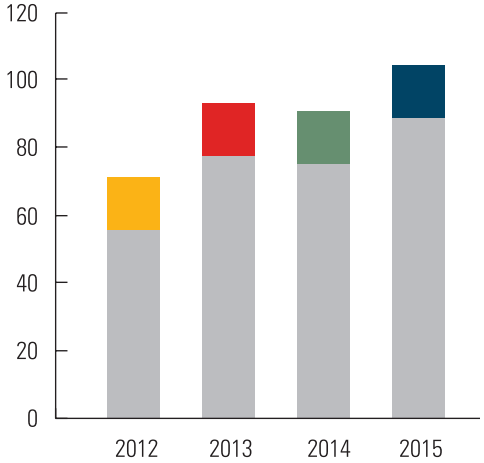
## Service Requests




Description: Total number of annual requests for distribution and transmission services.

Interpretation: Service requests are the macro level indicator of the productivity in the Transmission & Distribution Division. Incidents such as major storms can impact the totals.

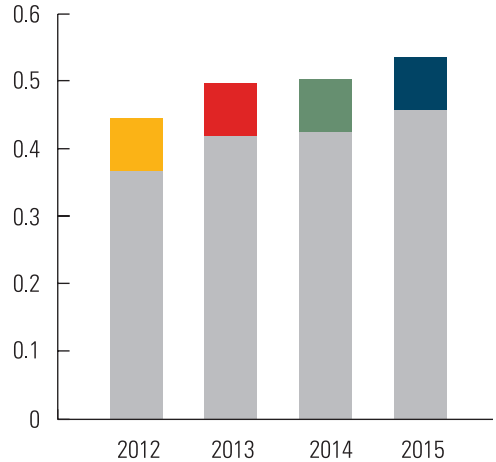
## Operating Expenditures per Megawatt Hour




Description: Total GP&L expenses (including TMPA purchases) for utility operation divided by the total kilowatt hours of sales x 1,000.

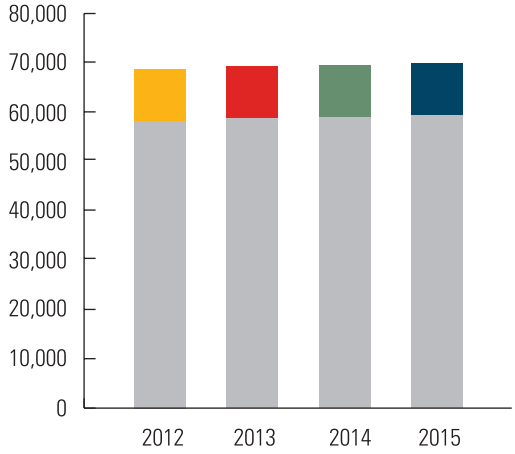
Interpretation: As this statistic is highly influenced by fuel cost, TMPA costs and debt service requirements, comparisons between utilities must be made carefully.

## Debt-to-Asset Ratio



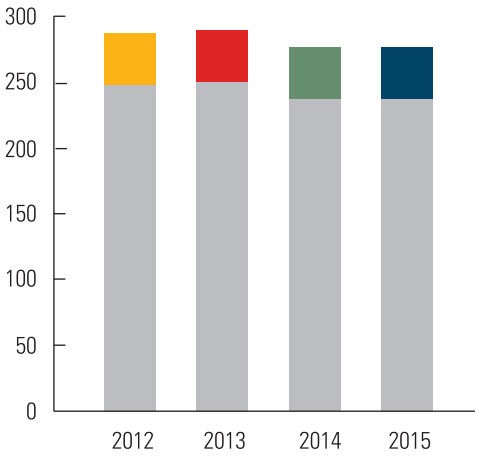

Description: The debt-to-asset ratio is a comparison of an organization's current and accrued liabilities and long-term debt to total assets. This ratio reflects to what degree an organization finances its assets with long-term debt.

## Electric System Number of Retail Customers



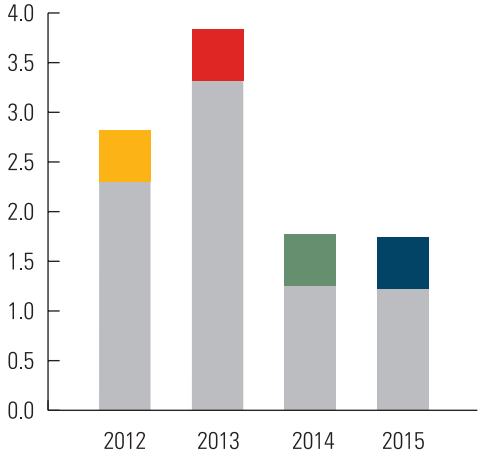

Description: Total annual customers.

## Retail Customers per Employee



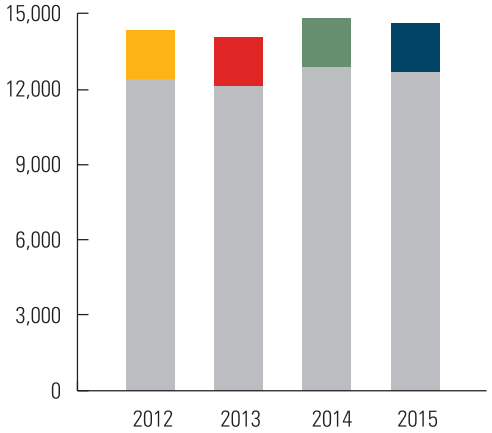

Description: Number of retail customers divided by the number of electric utility employees.

## OSHA Incidence Rate




Description: This is the standard indicator utilized by the industry to report lost time accidents. It is produced by multiplying the number of lost time accidents by 200,000, then dividing that number by the total hours worked by the employees.

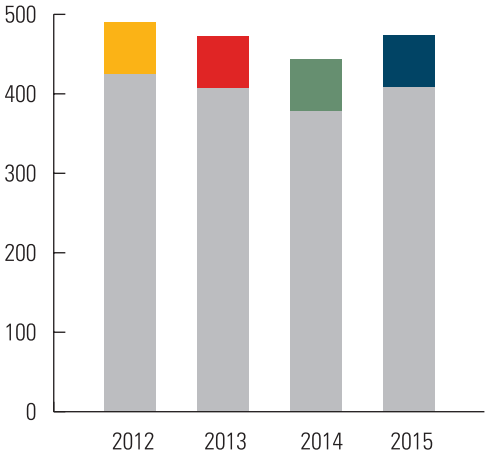
## KWH Sales per Residential Customer




Description: Sales of electricity in kilowatt hours for the residential class customers divided by total number of residential customers.

Interpretation: Changes in sales can be due to seasonal temperatures and customers' electricity utilization preferences.

## Electric System Peak (Megawatts)




Description: Peak demand as reported to the U.S. Department of Energy.

# Balance Sheet

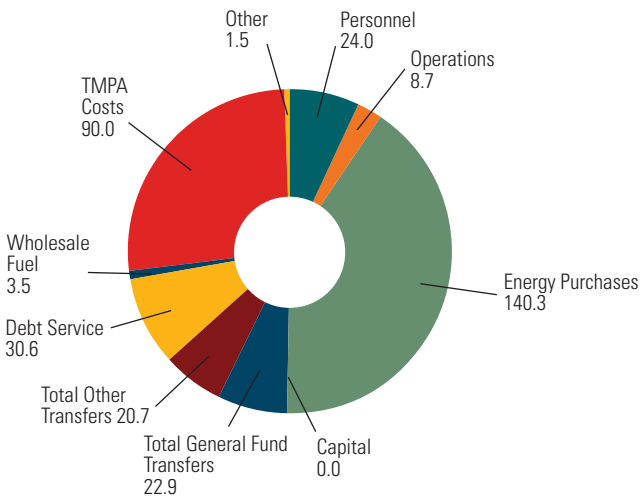
Fiscal Year Ended September 30, 2015. With comparative totals for Fiscal Year Ended September 30, 2014. (Unaudited)

## Assets

| | 2015 | 2014 |
|---|---|---|
| **Current Assets:** | | |
| Cash and investments | $ 51,095,587 | 62,639,502 |
| Inventories | 4,086,794 | 4,401,280 |
| Receivables and other | 56,330,203 | 53,280,307 |
| Total Current Assets | 111,512,584 | 120,321,089 |
| **Restricted Assets:** | | |
| Cash and investments | 186,696,376 | 191,054,273 |
| Accrued interest receivable | 174,269 | 224,642 |
| Total Restricted Assets | 186,870,645 | 191,278,915 |
| **Property, Plant and Equipment –** | | |
| Net of accumulated depreciation | 376,275,423 | 368,135,043 |
| **Other Assets** | 177,358,294 | 112,291,975 |
| **Total Assets** | $ 852,016,946 | $ 792,027,022 |

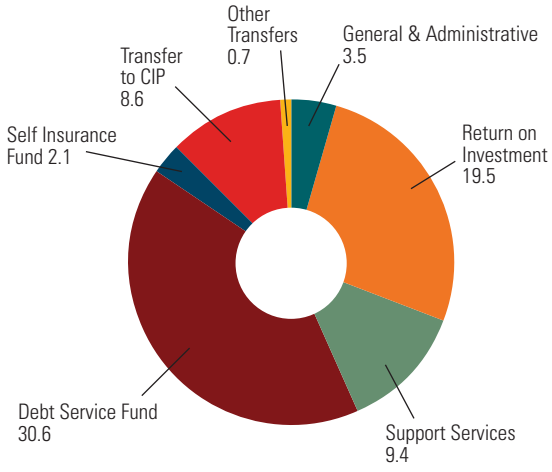
### Fiscal Year 2015 Actual Expenditures

in millions of dollars




### Fiscal Year 2015 Transfers to Other Funds

in millions of dollars



## Liabilities

| | 2015 | 2014 |
|---|---|---|
| **Current Liabilities:** | | |
| From current assets payables | $ 53,329,176 | 36,227,360 |
| **Long-term Liabilities:** | | |
| From restricted assets | | |
| Accounts payable | 1,110,428 | 664,375 |
| Retainage payable | 53,698 | 4,489 |
| Total payables from restricted assets | 1,164,126 | 668,864 |
| Bonds payable and other | 401,066,227 | 361,183,248 |
| Total Long-term Liabilities | 402,230,353 | 361,852,112 |
| **Total Liabilities** | 455,559,529 | 398,079,472 |

## Equity

| | | |
|---|---|---|
| **Retained Earnings:** | | |
| Invested in capital assets, net of debt | 141,802,810 | 136,554,246 |
| Restricted | 177,452,404 | 176,205,606 |
| Unrestricted | 77,202,203 | 81,187,698 |
| **Total Retained Earnings** | 396,457,417 | 393,947,550 |
| **Total Liabilities, Contributed Capital and Retained Earnings** | $ 852,016,946 | $ 792,027,022 |

Audited financial statements providing greater detail can be obtained from the City of Garland Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended September 30, 2015. The CAFR report is located on the City of Garland website at www.garlandtx.gov/gov/eg/finance/compfinanreport.asp

# Statement of Revenues, Expenses and Changes in Retained Earnings

Year Ended September 30, 2015. With comparative totals for year ended September 30, 2014. (Unaudited)

| Operating revenues: | 2015 | 2014 |
|---|---|---|
| Charges for service | $ 338,473,487 | 376,657,906 |
| Other | 705,531 | 725,327 |
| Total Operating Revenues | 339,179,018 | 377,383,233 |
| **Operating expenses before depreciation:** | | |
| Fuel purchases/Demand charges | 233,844,516 | 263,965,584 |
| Operating expenses | 36,711,697 | 36,867,484 |
| General and administrative | 12,157,156 | 12,121,668 |
| Total Operating Expenses Before Depreciation | 282,713,369 | 312,954,736 |
| Operating income before depreciation | 56,465,649 | 64,428,497 |
| Depreciation and amortization expense | 20,968,204 | 19,964,652 |
| **Operating Income** | 35,497,445 | 44,463,845 |
| **Non-operating revenues (expenses):** | | |
| Return on investment | (19,451,298) | (19,451,298) |
| Earnings on investment | 1,531,555 | 1,238,380 |
| Interest expense | (9,882,342) | (10,496,543) |
| Other | (6,197,673) | (3,338,529) |
| Net transfers | (1,974,870) | (9,531,003) |
| Net Non-operating Revenue (expense) | (35,974,628) | (41,578,993) |
| **Net Income** | (477,183) | 2,884,852 |
| **Retained Earnings at Beginning of Year** | 393,947,550 | 394,007,398 |
| **Cumulative Effect of Change in Accounting Principle** | 2,987,050 | (2,944,700) |
| **Retained Earnings at End of Year** | $ 396,457,417 | $ 393,947,550 |

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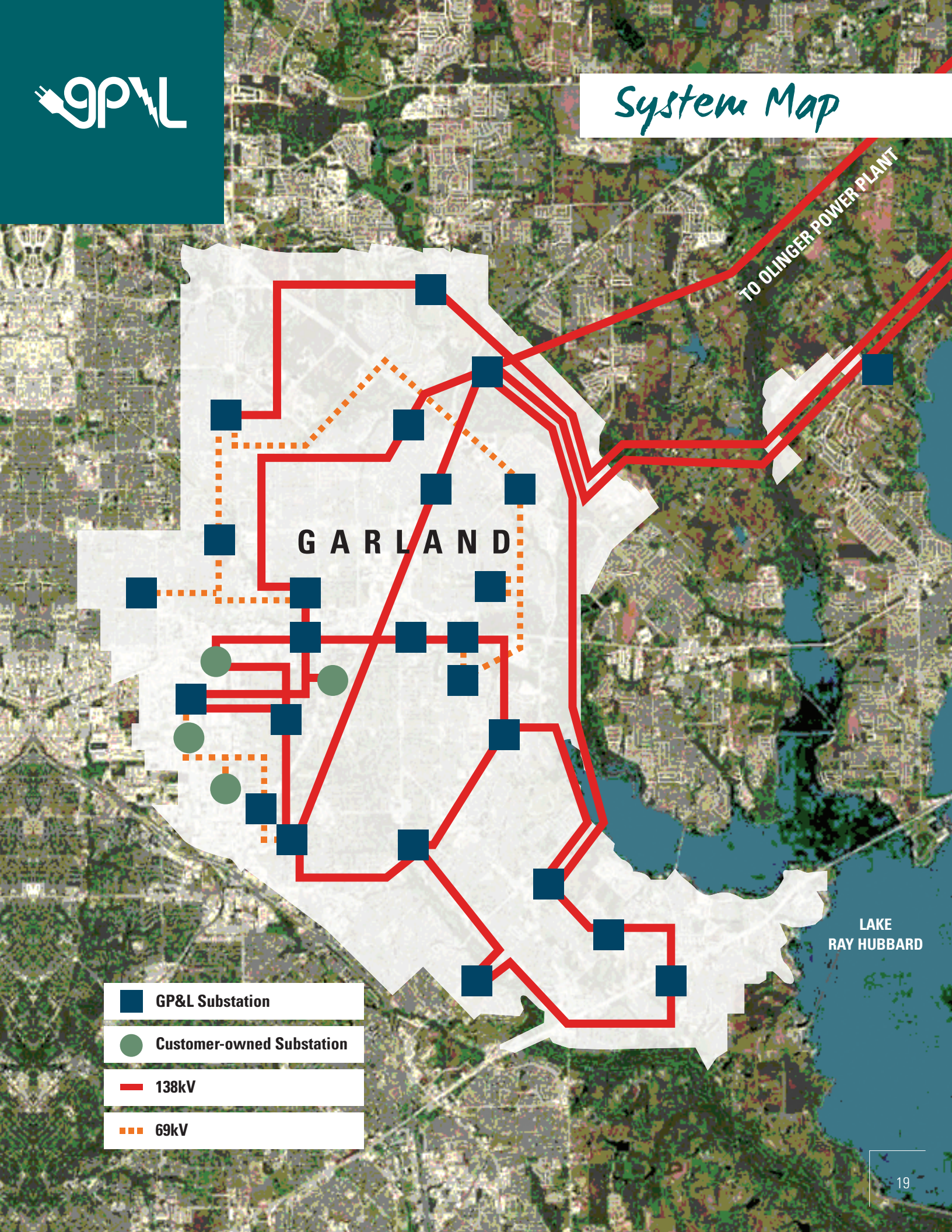
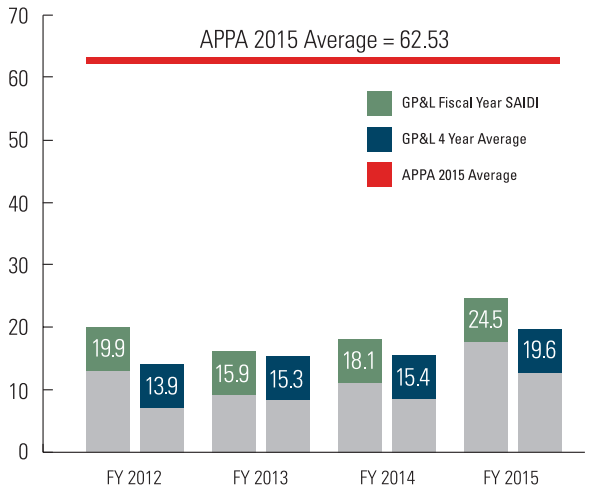
GP&L maintained a 1 cent reduction of the Recovery Adjustment Factor (RAF) component of the rate for electric service through fiscal year 2015. Background: On June 1, 2010, GP&L reduced the RAF by 1 cent, initially scheduling it to end on October 31, 2010; however, GP&L kept the reduction in place due to sustained lower energy costs, continued substantive cost reducing measures, and wholesale energy service activities.

# System Map


TO OLINGER POWER PLANT
GARLAND
LAKE
RAY HUBBARD
GP&L Substation
Customer-owned Substation
138kV
69kV

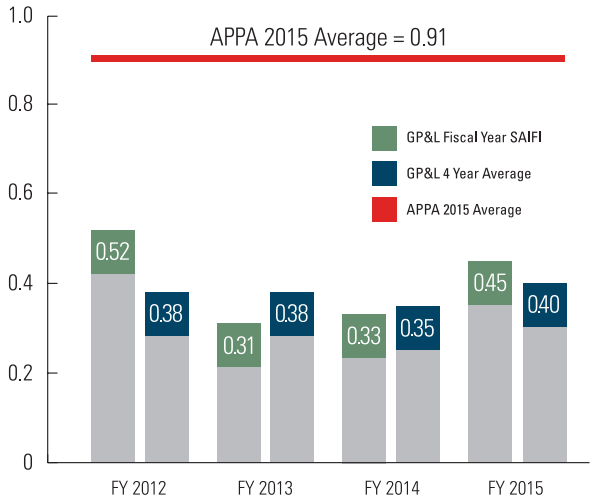
# Key Statistics

## System Average Interruption Duration Index (SAIDI) Fiscal Year Ended September 30th




System Average Interruption Duration Index (SAIDI) – Designed to give information about the average time that the customers are interrupted. This index is commonly referred to as Customer Minutes of Interruption or Customer Hours. It is a measure of the response time or restoration time when outages occur and is computed by dividing the sum of all customer interruption durations by the total number of customers served.

## System Average Interruption Frequency Index (SAIFI) Fiscal Year Ended September 30th




System Average Interruption Frequency Index (SAIFI) – This is defined as the average number of times that a customer is interrupted during a specified time period. It is determined by dividing the total number of customers interrupted in a time period by the average number of customers served. The resulting unit is "interruptions per customer."

## 2015 Transmission & Distribution Statistics

| | |
|---|---|
| Distribution lines | 3.2 miles of overhead added or replaced<br>13.4 miles of underground added or replaced |
| Distribution poles added or replaced | 467 |
| Overhead operations & repairs | 140 |
| Overhead construction projects | 500 |
| Underground operations & repairs | 444 |
| Underground construction projects | 478 |
| Street lights | 1,566 operations & repairs<br>257 construction projects |
| Residential meter sets & changeouts | 651 |
| Commercial meter sets & changeouts | 197 |
| Meter operations, repairs & testing | 1,322 |
| Trouble calls | 3,178 |
| Tree trimming requests | 232 |

## City Manager

Bryan L. Bradford


## Garland City Council

Standing (left to right)

Lori Barnett Dodson – District 6
Deputy Mayor Pro Tem

Billy Mack Williams – District 5

Stephen W. Stanley – District 3

Scott LeMay – District 7

B.J. Williams – District 4
Mayor Pro Tem

Anita Goebel – District 2

Seated (left to right)

Jim Cahill – District 8

Douglas Athas – Mayor

Tim Campbell – District 1

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