



New **Breaking
Ground**

2015 State of the Utilities Report

Breaking *New* Ground for the Future

This year marked 75 years of service for Huntsville Utilities. It also marked a year of planning and preparing for the future. A lot of work over the past few years came together as we broke ground on a new water



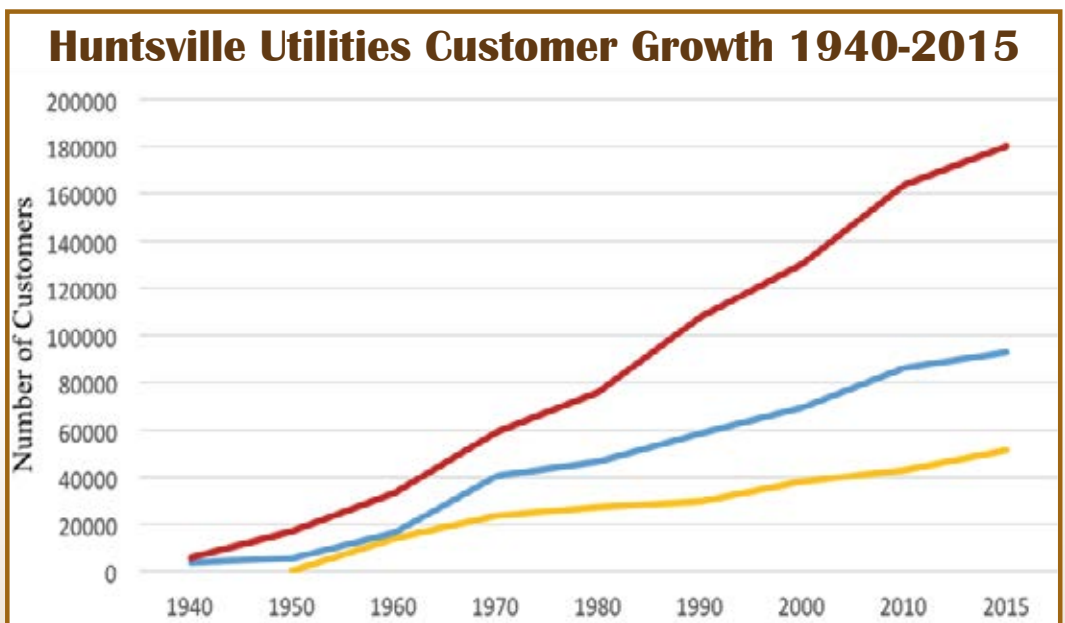
plant. Natural gas prices dropped to a level that caused people to be very interested in adding it as a service and we have added gas to subdivisions that previously did not have access to it. We started a program to help customers save money on their utility bill with a grant from TVA. We changed our bill format to provide better information to our customers and we will continue to make similar types of improvements.

We also started a lot of planning to determine how and where we should grow our system. We are developing a plan to expand our communications network with fiber to better manage our system. We are developing a plan to install new meters to better serve our customers and every day we talk about how to make it easier to do business with us.

We have 630 employees focused on doing what is best for our customers each day. We are proud of the work we did last year, the work we have done for 75 years and the work we are planning to do in the future.



Jay C. Stowe
President & CEO



In 1954, Huntsville Water and Gas System was formed and, along with Huntsville Electric System, began operating as Huntsville Utilities. Data is estimated for 1940-1960.

Breaking New Ground

As Huntsville continues to grow and change, so too does Huntsville Utilities. Throughout 2015, Huntsville Utilities celebrated its 75th year of providing efficient and reliable service to customers, and also began a number of new and renewed efforts to enhance and improve service while accommodating the growth and maintenance of each system: electric, water, and natural gas.

Customer Service

Huntsville Utilities made significant strides in improving customer relationships in 2015 with an emphasis on being easier to do business with -- more accessible, accommodating and accountable to our customers. The list of items designed to meet these goals is long, but a few of the highlights include a new bill design, extended time to pay, a new communications system and added customer service staff.

In the spring, Huntsville Utilities changed the late-payment process by including automatic extensions for customers needing additional time to pay their bill. Additionally, customers now receive a "Final Notice" letter alerting them that their bill has not been paid and the time remaining before service interruption. This new process has greatly reduced the number of interruptions performed each month due to non-payment. The space on the bill where Final Notice information previously appeared now contains graphs illustrating past and current usage of the three utility services.

The Customer Service Department began using a new customer communication system in 2015, utilizing a sign-in kiosk and television monitors to better manage customer flow and delegate staff to meet customer needs. This communication flow decreases the time it takes for our customers to accomplish their goals when visiting Huntsville Utilities' offices.



Customer Service flow was greatly improved by the use of an electronic traffic flow system. Customers sign-in at a kiosk. They are given a number and routed to the appropriate department. Customers can check their status on monitors placed throughout the lobby area.



Huntsville Utilities began an aggressive outreach program to update customers on new initiatives, capital growth projects and the Georgetown Energy Prize Competition. Staff are briefing homeowners associations, places of worship, community or civic organizations in the service area that have expressed interest in the new initiatives. This effort supports the utility's commitment to strengthening relationships within the community and keeping customers informed.

During FY2015, plans took shape for future customer experiences at Huntsville Utilities. Teams are working on a variety of upcoming improvements, including:

- Increased payment options after hours and on weekends
- Introduction of payment kiosks at remote locations
- Improved Customer Service flow and decreased customer wait time

Operations

Behind the scenes, new ground breaking operational improvements began in preparation for the new Advanced Metering Infrastructure (AMI) system, also popularly known as "smart metering". Advanced meters enable customers to better manage their utility consumption and control utility cost with more information about their utility usage. It will also locate potential problems and energy loss at homes and businesses more efficiently.

AMI will enable Huntsville Utilities to engage and empower customers through better notification methods for unusual consumption and provide more detailed information concerning high bill inquiries. Staff will be able to eliminate manual bill processing, increase meter accuracy, detect outages and leaks more quickly, measure more accurate load data for sizing infrastructure, and receive faster notification of unexpected or unauthorized consumption.

Not only will this technology offer better utility management capabilities for customers, it will also give utility staff the ability to monitor and regulate system efficiency. As the utility industry changes in response to regulatory pressure, the ability to monitor and control system efficiency will be the key to providing reliable service and rate stability.

The AMI project comprises several key pieces working together to completely update the current metering infrastructure and customer information systems. Throughout the year employees attended workshops with consultants and visited other utility companies where AMI systems have been implemented to



The AMI project will enable customers to better track and control their usage, while providing Huntsville Utilities system information in a timely manner. Equipment similar to the electric meters and transmitters for the gas and water meters pictured above will start being installed as the project progresses during 2016.



learn from their experience. The multiple workshops and training sessions involved meter specifications, supplies, meter modules and registers, cyber security, system maintenance, software license and software configuration training.

The AMI system will consist of advanced meters, communication infrastructure necessary to retrieve the meter data, and the “AMI Head-End” software which feeds the data to the Meter Data Management (MDM) system. The MDM system is the “brains” of the AMI system and will organize the meter data received for use in customer billing, usage and consumption information as well as utility outage information.

The MDM implementation began in the summer of 2015 and the AMI implementation followed soon after in the fall. Huntsville Utilities plans to begin installing meters in late summer 2016.

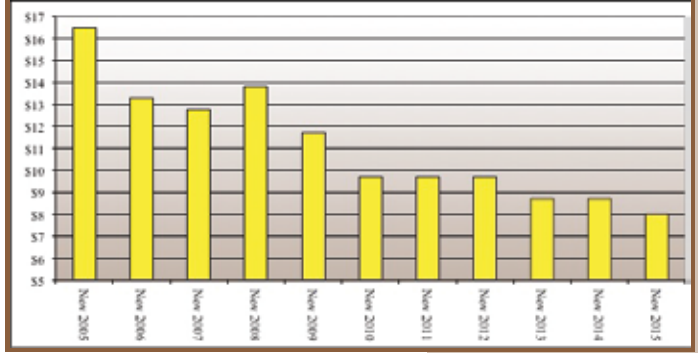
Construction

April 2015 marked the groundbreaking for construction of Huntsville Utilities’ new Southeast Water Treatment Plant being built along the Tennessee River near TVA’s Guntersville Dam. Construction is being financed with \$83.5 million in municipal revenue bonds which were issued in August 2015. General contractor Brasfield & Gorrie is approximately 25% complete with the new water treatment plant that will initially add 24 million gallons per day (MGD) of pumping capacity to the water system when it opens in the spring of 2017. With an expansion capacity of 96 MGD the new water treatment plant more than doubles Huntsville Utilities current pumping capacity, securing a reliable supply of safe drinking water for decades to come. Huntsville Utilities also added 1,397 customers to the water system.

The remarkably cold winters of 2014 and 2015 along with a dramatic increase in the very affordable supply of natural gas created consumer curiosity throughout the country. Huntsville Utilities answered public interest in the economical energy source by breaking ground on expansions in the natural gas system during 2015. The Gas Operations Department installed 7,243 feet of gas pipe in 2015 and added 977 customers.

The Electric system also broke new ground completing construction on a new delivery station and beginning construction on a new substation in the northern service area. Upgrades to the Northwest

Residential Customer Rate per Mcf



Since 2005 Huntsville Utilities’ natural gas rate has decreased by 51%. This rate decrease has been achieved through smart commodity purchasing practices as well as the increase in domestic supply.



Construction of the new Southeast Water Treatment Plant on the Tennessee River is ahead of schedule. The new treatment plant will offer the ability to double the amount of water available as Huntsville Utilities’ customer base and usage continues to increase.

Delivery station also began to accommodate future system growth and improve the resiliency and reliability of service to Huntsville Utilities' customers. In all, Huntsville Utilities Electric Department installed 223 miles of new electric lines and added 2,963 customers.

Special Project

In November of 2014, Huntsville Utilities staff began working on a TVA (Tennessee Valley Authority) grant application offered through their Smart Communities initiative for the Extreme Energy Makeovers project. This project is an effort to perform free, whole-home, deep energy retrofits for qualified low income applicants in homes 20 years or older. The goal is to achieve a 25% reduction in energy usage.

TVA awarded Huntsville Utilities an \$11.7 million grant for the Huntsville Extreme Energy Makeovers (HEEM) project. Huntsville Utilities plans to improve approximately 1,100 homes with these funds. In addition to reduction in energy consumption, Huntsville Utilities is educating customers on how to sustain significant energy savings through energy efficiency habits.

The first home improvements began in August and by the close of the FY2015 161 homes were accepted into the program with 72 of those having been completed. The TVA grant for the HEEM project will conclude in September 2017. Huntsville Utilities is projected to meet all planned goals, with a long-term target of continuing HEEM at some level after the conclusion of TVA's Smart Communities grant.



The most consistent improvement for energy-savings in the HEEM home evaluations has been adding insulation. In the Huntsville Utilities service area an R-value (the measure of insulation's ability to resist heat flow) of R-38 is recommended, which is 10-14 inches of insulation over the entire attic.

Huntsville Utilities has been breaking new ground regularly during its 75-year tradition of reliable, affordable service, with constant planning for infrastructure and keeping ahead of supply demands. The company is committed to continuing the tradition for another 75 years.



Huntsville Utilities

Statements of Revenues and Expenses

For the years ended September 30, 2015 & 2014

Electric	2015	2014
Revenues		
Residential Sales	\$242,941,029	\$245,789,073
Small Commercial Sales	34,676,255	34,934,092
Large Commercial & Industrial Sales	197,704,139	205,317,670
Lighting Sales	4,709,629	4,781,731
Other Operating Revenue	11,747,008	11,981,766
Non-Operating Revenue	471,071	424,535
	\$492,249,131	\$503,228,867
Expenses		
Purchased Power	\$415,523,726	\$422,077,059
Transmission & Distribution	19,605,115	19,091,159
Customer Accounting	5,501,483	4,743,380
Administrative & General	19,475,918	17,149,270
Depreciation	18,540,489	19,212,512
Payroll Taxes	1,573,070	1,476,167
Non-Operating Expenses	1,754,683	564,878
Tax Equivalents	11,874,498	11,613,743
	\$493,848,982	\$496,274,944
Increase in Net Position	-\$1,599,851	\$6,953,923
Natural Gas		
Revenues		
Residential Sales	\$20,065,929	\$20,985,397
Commercial Sales	21,695,617	22,229,781
Industrial Sales	2,566,710	2,531,716
Other Operating Revenue	2,832,563	2,961,907
Non-Operating Revenue	198,737	93,077
Capital Contributions	897,591	459,513
	\$48,257,147	\$49,261,391
Expenses		
Purchased Gas	\$26,978,720	\$27,782,214
Distribution	4,708,021	4,104,811
Customer Accounting	1,006,549	891,923
Administrative & General	5,884,872	5,172,041
Depreciation	4,444,393	4,394,567
Non-Operating Expenses	418,668	434,079
Tax Equivalents	2,662,508	2,695,706
	\$46,103,731	\$45,475,341
Increase in Net Position	\$2,153,416	\$3,786,050
Water		
Revenues		
Residential Sales	\$20,337,718	\$18,855,803
Commercial Sales	10,554,147	9,372,805
Industrial Sales	2,008,755	1,938,086
Government Sales	2,415,375	1,211,664
Fire Hydrants	1,323,461	1,244,741
Other Operating Revenue	1,858,353	2,209,277
Non-Operating Revenue	181,187	119,053
Capital Contributions	3,765,603	3,191,038
	\$42,444,599	\$38,142,467
Expenses		
Purification	\$1,418,549	\$1,359,986
Pumping	4,151,100	3,877,147
Distribution	5,663,323	4,906,921
Customer Accounting	1,274,666	1,184,672
Administrative & General	8,201,455	7,102,322
Depreciation	7,359,568	7,402,087
Non-Operating Expenses	1,464,232	1,951,671
Tax Equivalents	2,186,355	1,886,729
	\$31,719,248	\$29,671,535
Increase in Net Position	\$10,725,351	\$8,470,932

Vision

To be the best utility in the country.

Mission

To add value to our community by providing efficient utility services.

Values

We do what is best for:

Our Customers • Our Employees • Our Operations

Organization

Huntsville Utilities is comprised of three separate systems which operate under three Boards appointed by the City Council of Huntsville. The gas, water and electric systems share top management, customer services, billing, meter reading, accounting and purchasing functions to save our customers money. Each system pays its share of these expenses and has its own financial reports.

Utility Board Members



Electric Board (l-r)

Ronnie W. Boles, Secretary

D. Thomas Winstead, Chairman

George A. Moore, Esq., Vice-Chairman

Natural Gas/Water Boards (l-r)

Dr. James S. Wall, Jr., Chairman

Dorothy W. Huston, Ph.D, Vice-Chairman

Stanley Statum, Secretary



Management Team

Jay C. Stowe

President & Chief Executive Officer

Stacy Cantrell

Vice President, Engineering

Janice Capshaw

Vice President, Human Resources

Melissa Marty

Director, Internal Audit

John Olshefski

Vice President, Customer Care

Tony Owens

Vice President, Operations

Theodore Phillips

Chief Financial Officer



HUNTSVILLE UTILITIES

ELECTRICITY • NATURAL GAS • WATER