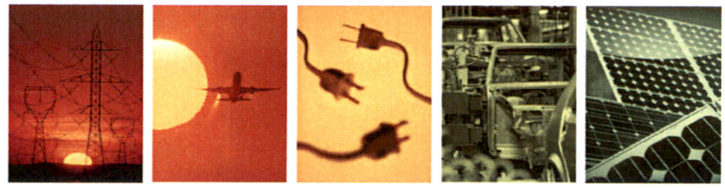
MYKROBEL LLC

Getting you from red to green



Municipalization Overview

What is municipalization?

The takeover of an electric utility by a city through a process that involves arbitration, condemnation and other possible venues such as involvement from the Federal Energy Regulatory Commission (FERC).

How long does the process typically take and cost?

Normally it takes 5 to 10 years to form a new utility with the process itself costing millions to tens of millions. The ultimate price tag for a city the size of Pensacola would be expected to be hundreds of millions. For example, Vero Beach, a city similar in size to Pensacola, voluntarily sold its municipal electric system to FPL in 2018 for a price tag approaching $200 million after 10 years of effort.

How many utilities have formed in this way?

There are over 2,000 municipal electric utilities in the United States and 33 in Florida, with almost all of them forming in the early 1900's. Hundreds of cities have considered municipalization but only six have formed in the past 40 years using this approach; four of those were to gain access to hydroelectric power. Looking at municipal systems in Florida over the past 30 years, only Winter Park formed a utility in 2005 and Vero Beach sold its municipal run utility in 2018 to FPL.

What is the track record of feasibility studies?

City-sponsored feasibility studies always recommend moving forward despite the poor results of past municipalization efforts. As the following table illustrates these studies have a history of over estimating benefits while underestimating the costs involved in forming a new utility. As the following table shows, actual costs are typically double or more what was predicted in the feasibility report.

Community	Study	Result
Jefferson County, WA	$45 - $65 million	Over $100 million
South Daytona, FL	Under $5 million	Over $12 million
Winter Park, FL	Over $2 million annual profits	Loss of $11.6 million in first 4 years, Credit Watch Negative
Las Cruces, NM	Under $26 million	Over $100 million

What should we know about Winter Park's utility?

After facing significant reliability issues, Winter Park formed a utility in 2005 after 5 years of effort. The early years were very challenging; the general fund was depleted due to hurricane recovery and electric utility formation and operating costs. In 2009, it was reported that the utility had lost over $11 million in its first 4 years of operations and the city was put on credit watch negative by Fitch ratings as a result.

Besides time and money, what are other key issues to consider?

The city would be required to purchase all electric utility assets in the city limits; in Pensacola, this includes 115,000 volt transmission lines and substations as well as a highly specialized underground network. The power grid would need to be reconfigured to create a separate municipal utility system, which will be complex in Pensacola because the power system today weaves in and outside of the city limits and there are critical customers, such as hospitals, that are in and outside of the city limits.

What happens from here?

Purchasing an electric utility is a major endeavor; even a voluntary sale like Vero Beach took 10 years of effort. Given the magnitude of the issue, normally this becomes one of the top priorities – and usually the top priority – for the city. The initial feasibility study is just the beginning of a long road that normally leads to additional comprehensive studies costing hundreds of thousands and ultimately a very costly legal process.

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