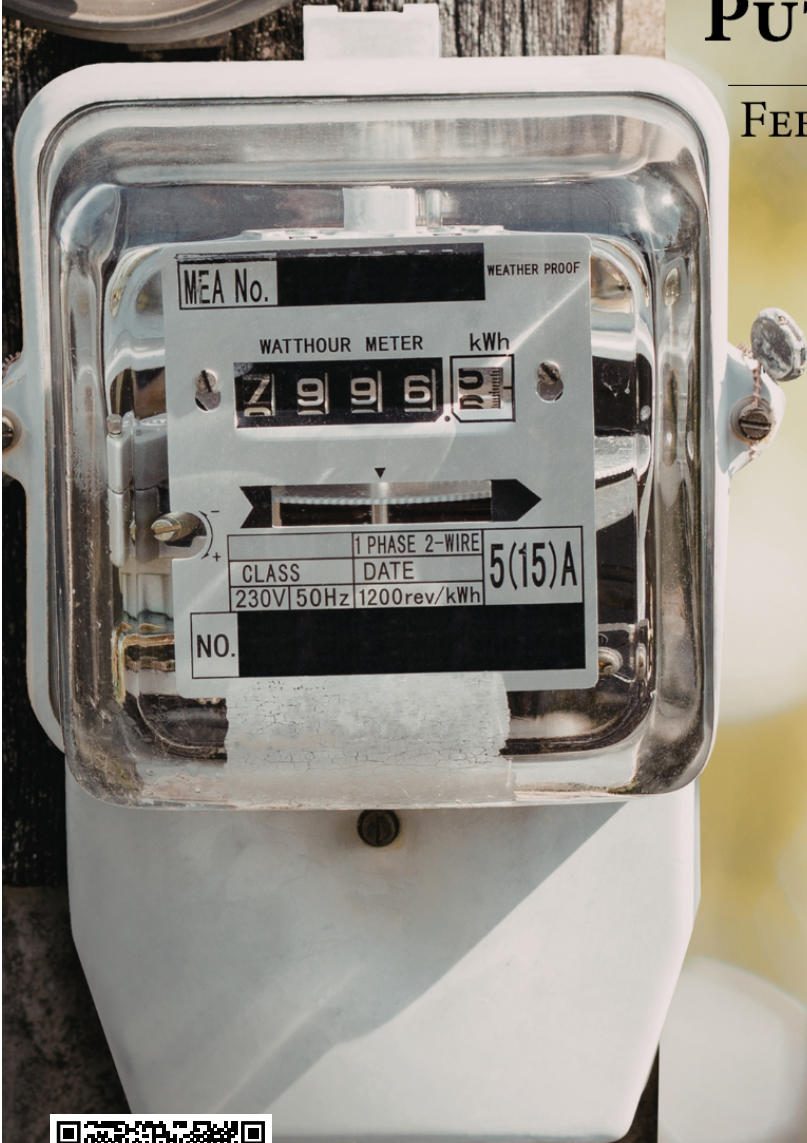


CLEARWATER'S PLAN TO ESTABLISH ITS OWN MUNICIPAL ELECTRIC UTILITY PUTS TAXPAYERS AT RISK

FEBRUARY 2026





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Lt. Gov. Jeff Kottkamp
President & Chief Executive Officer

David Casey
Chairman of the Board of Trustees

DEAR FELLOW TAXPAYER,

Residents and businesses within the City of Clearwater receive electric power from Duke Energy Florida (Duke). Citing residents' concerns about high electricity bills, tree trimming issues, and power line maintenance, the City contracted with NewGen Strategies and Solutions, LLC and its partners to conduct a study of the feasibility of establishing a municipal electric utility to serve the City's residents and businesses.

Cities form their own utilities for a number of reasons, including the desire for local control, reduced costs for ratepayers, improved service reliability, and to align utility operations with community goals (e.g., greater use of renewable energy). On the other hand, privately (investor) owned utilities have the advantages of economies of scale --- being able to spread fixed and overhead costs over a larger customer base --- and raising cash to pay for replacement facilities.

To municipalize its electric utility, the City must acquire Duke's electric distribution assets that serve City residents and businesses. Duke has made it clear that it has no interest in selling its assets, leaving the City to consider the lengthy, contentious, and expensive process of eminent domain.

Florida TaxWatch undertakes this independent research project at the request of Representative Kim Berfield and Senator Nick DiCeglie, whose legislative districts include portions of Pinellas County.

Respectfully yours,

A handwritten signature in black ink, appearing to read "Jeff Kottkamp", written in a cursive style.

The Honorable Jeff Kottkamp, Esq.
President & CEO,
Florida TaxWatch

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EXECUTIVE SUMMARY

Duke Energy Florida (“Duke”) owns 12,500 megawatts of energy capacity, supplying electricity to two million residential, commercial and industrial customers across a 13,000-square-mile service area in Florida. Consistent with Florida Public Service Commission (FPSC) rules and regulations, Duke provides electric services to the City of Clearwater (“City”).

Citing residents’ concerns about high electricity bills, tree trimming issues, and power line maintenance, the City contracted with NewGen Strategies and Solutions, LLC (“NewGen”) and its partners to conduct a study of the feasibility of establishing a municipal electric utility (“MEU”) to serve the City’s residents and businesses. The results of the study, which was completed in September 2025, suggest that, for all (30) years of the study period, the Clearwater municipal electric utility (MEU) “could potentially provide service to its customers at lower average system retail rates than those estimated for Duke while providing reliable power to its citizens.”

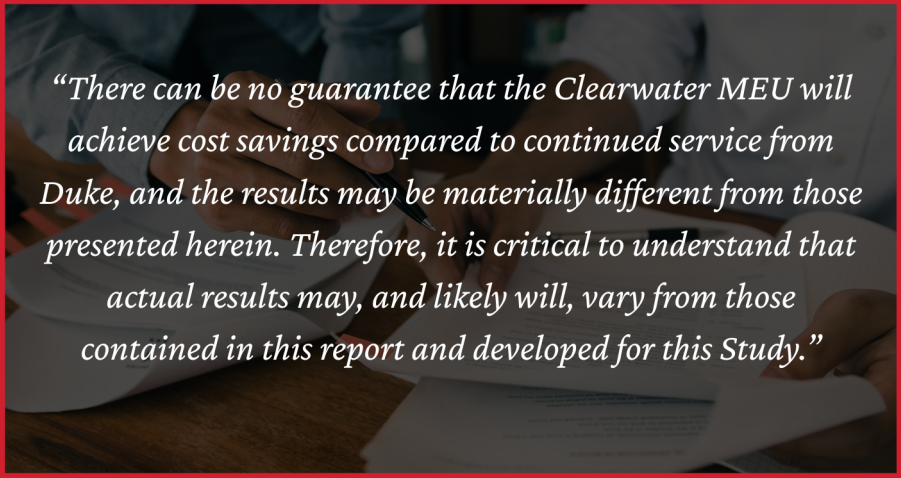
The feasibility study estimates that, during the first five years of Clearwater MEU operation, the average retail rate for the Clearwater MEU will be approximately seven percent lower than the corresponding estimated all-in rate for Duke, generating an annual savings of about \$22.4 million in Year 5. The average retail rate for the Clearwater MEU is estimated to be approximately 18 percent lower than Duke’s rates for the remainder of the study period.

It is important to understand that a large percentage of the more than 2,000 MEUs and 900 electric cooperatives in the U.S. were established in the early 1900s and have an average age of 85 years or more. Research has shown that, since 2000, only a handful of more than 75 attempts to municipalize a community’s electric service were successfully completed, and those utilities that were municipalized seldom delivered on their promises. Ratepayers rarely saw lower prices; customer service failed to appreciably improve; no more clean/renewable energy was produced; and taxpayers were left to foot a sizeable bill for the purchase of the assets.

A review of municipalization case studies suggests three primary reasons for the failures: (1) cost escalation; (2) length of time required; and (3) reluctance of the voters to approve municipalization.

Feasibility studies performed on behalf of municipalities frequently underestimate the cost of completing municipalization efforts. This is especially true in municipalizations like the Clearwater MEU, that do not have the cooperation of the existing utility service provider. Acquisition of assets is not something that happens overnight. The process of municipalization is lengthy, even if the municipality has the cooperation of the existing utility service provider. That is certainly not the case with the Clearwater MEU. If the City pursues the route of eminent domain, one could expect the acquisition process to last a decade or longer. It is important to note that, when ratepayers are asked to vote on municipalizing their electric utility, the voters overwhelmingly choose against municipalizing.

The feasibility study goes to considerable lengths to make sure the reader understands the limitations and qualifications that accompany this feasibility study. The feasibility study offers no assurances that the assumptions in the study are the only assumptions that the City should consider in its deliberations regarding the formation of a Clearwater MEU. The feasibility study acknowledges that external events could occur, or new information could become available, that would have an impact on these assumptions. In such an event, the findings in the study, including the potential savings associated with the formation of the Clearwater MEU (emphasis added), could be adversely impacted. The feasibility study concludes that:



“There can be no guarantee that the Clearwater MEU will achieve cost savings compared to continued service from Duke, and the results may be materially different from those presented herein. Therefore, it is critical to understand that actual results may, and likely will, vary from those contained in this report and developed for this Study.”

The one assumption that Florida TaxWatch finds most troubling is the assumption that the acquisition of Duke’s assets and the conversion to an MEU will occur “overnight.” This assumption fails to acknowledge the time required for the City to acquire Duke’s assets. Full acquisition of Duke’s distribution assets (including severance and reintegration) would likely require a period of several years, especially if the City pursues the path of eminent domain.

Assuming an “overnight” conversion to an MEU, Year 1 of the financial model upon which the feasibility study bases its determination that municipalization is “feasible” is 2026. When the additional time and costs associated with eminent domain are considered, Florida TaxWatch believes Year 1 will be closer to 2036 than 2026. This assumption of an overnight conversion invalidates the financial model upon which the feasibility of the Clearwater MEU is based. The feasibility study also acknowledges that, should the City decide to pursue establishment of the Clearwater MEU, “a detailed appraisal of the assets to be acquired, including the value of the land in easements and in fee, will likely need to be conducted.”

Economies of scale are crucial to the provision of reliable electric service at the lowest possible cost to the community. Economies of scale permit larger utility companies to generate and distribute electric service at a lower average cost per customer because they can spread their infrastructure investments over a larger customer base. The more customers a single large utility serves with that shared infrastructure, the lower the average cost per customer generally becomes. This efficiency suggests that it would cost less for one large utility provider to serve an area, as opposed to multiple competing entities duplicating infrastructure and service.

IOUs face the same resiliency and recovery challenges as their publicly owned counterparts in creating generation and distribution networks capable of withstanding and recovering from more frequent and more intense weather events. IOUs like Duke rely on mutual aid agreements with Regional Mutual Assistance Groups (RMAGs) to mobilize thousands of utility workers and resources from other electric companies during major events. This helps to ensure faster service restoration. Costs and procedures for mutual aid are standard in the industry, which allows for rapid deployment and cost recovery after major events.

Because they are a for-profit entity, IOUs must request approval from state regulators (e.g., Florida Public Service Commission) to pass most of their response and recovery costs to customers to ensure a return for their investors, often through temporary (12-18 months) rate increases. Publicly owned utilities have the benefit of being able to tap into state and federal disaster response and recovery programs to recover their costs, lessening the financial burden on ratepayers.

The City undertakes this municipalization at a time when local governments are under great scrutiny from the state for unnecessary and wasteful spending. Executive Order 25-44 authorizes the audit of (state agencies and) local governments for waste and inefficiencies, and to ensure that taxpayer money is spent responsibly. Establishing and staffing the Clearwater MEU is almost certain to invite scrutiny from DOGE.

Florida TaxWatch cautions the City of Clearwater not to proceed with the planned acquisition of Duke’s electric distribution assets and the establishment of a municipal electric utility. This caution is based upon our collective belief that, no matter how much the City thinks this effort will cost, or how long this process will take, it is going to cost more and take longer to do. This collective belief is based upon: (1) a heavily qualified feasibility study with too many assumptions and unknowns; (2) a timeframe going forward that does not seem realistic; and (3) a 25-year body of research that is not favorable to or supportive of municipalization.

Florida TaxWatch considers the City’s efforts to municipalize its electric utility service to be a huge financial risk for something that is projected to generate single-digit savings for the first few years of operation. There are some things the private sector does better than the public sector, and the provision of electric power service is one of those things. The challenge facing the City going forward is determining whether the financial risk is worth the potential reward. Florida TaxWatch believes the answer to this challenge is a resounding “no.”

Florida TaxWatch recommends the City of Clearwater and Duke Energy Florida immediately begin negotiating a new franchise agreement— one that represents a “win-win” for the City, Duke Energy Florida, and most importantly, the taxpayers. City residents deserve nothing less.

INTRODUCTION

Duke Energy Florida (“Duke”), a subsidiary of Duke Energy, owns 12,500 megawatts of energy capacity, supplying electricity to two million residential, commercial and industrial customers across a 13,000-square-mile service area in Florida.¹ As an investor-owned utility (IOU), Duke’s rate structure, territorial boundaries, and service quality are regulated by the Florida Public Service Commission (FPSC). Consistent with FPSC rules and regulations, Duke provides electric services to the City of Clearwater (“City”).

A 30-year Franchise Agreement, which expired December 31, 2025, governed how Duke builds and maintains poles and wires within the City’s rights-of-way. The Franchise Agreement (City Ordinance No. 5944-95,) provided Duke a non-exclusive electric utility franchise to occupy municipal streets and rights of ways in the City for the purposes of providing electric and power services. The Franchise Agreement provided the basis for the franchise fee payment, which is equal to six percent of the base rate revenues collected from customers within the City’s municipal limits. Duke collects the franchise fee from its customers, which is then paid to the City. Despite expiration of the Franchise Agreement, Duke continues to provide electric service to City residents and businesses.

Citing residents’ concerns about high electricity bills, tree trimming issues, and power line maintenance, the City contracted with NewGen Strategies and Solutions, LLC (“NewGen”) and its partners to conduct a study of the feasibility of establishing a municipal electric utility (“MEU”) to serve the City’s residents and businesses. The results of the study, which was completed in September 2025, suggest that, for all (30) years of the study period, the Clearwater MEU “could potentially provide service to its customers at lower average system retail rates than those estimated for Duke while providing reliable power to its citizens.”

Moving forward with the establishment of the Clearwater MEU is contingent upon the City’s ability to acquire Duke’s distribution-related assets² through one of the following ways: (1) a negotiated purchase and sale of assets; (2) a franchise purchase option; or (3) the use of eminent domain. Duke has made it clear that its assets are not available for a negotiated purchase, and the current Franchise Agreement does not include a provision for a purchase option. That leaves the costly and time-consuming process of eminent domain, which would be conducted pursuant to Article X, Section 6 of the Florida Constitution and Subsection 73.0715, Florida Statutes.

This analysis consists primarily of three parts: in the first part Florida TaxWatch lays bare the analysis conducted by the NewGen Project Team. Florida TaxWatch looks closely at the City’s proposed plan to acquire Duke’s electric distribution assets; the projected costs and timing of this acquisition; and every assumption or factor that went into the feasibility study’s conclusion that the City’s acquisition of Duke’s distribution assets and the formation of a municipal electric utility (MEU) is “feasible.” In the second part, Florida TaxWatch analyzes the NewGen Project Team’s plan to establish an MEU; and in the third part, Florida TaxWatch outlines its conclusions and the reasons behind its recommendation that the City of Clearwater not proceed with the planned acquisition of Duke’s electric distribution assets and the establishment of a municipal electric utility. Florida TaxWatch undertakes this independent research project at the request of Representative Kim Berfield and Senator Nick DiCeglie, whose legislative districts include portions of Pinellas County.

¹ Duke Energy, “Fast Facts,” April 1, 2025, retrieved from <https://www.duke-energy.com/-/media/pdfs/our-company/duke-energy-fast-facts.pdf?rev=ac88e76e789143f889da16ba486d0219>, December 18, 2025.

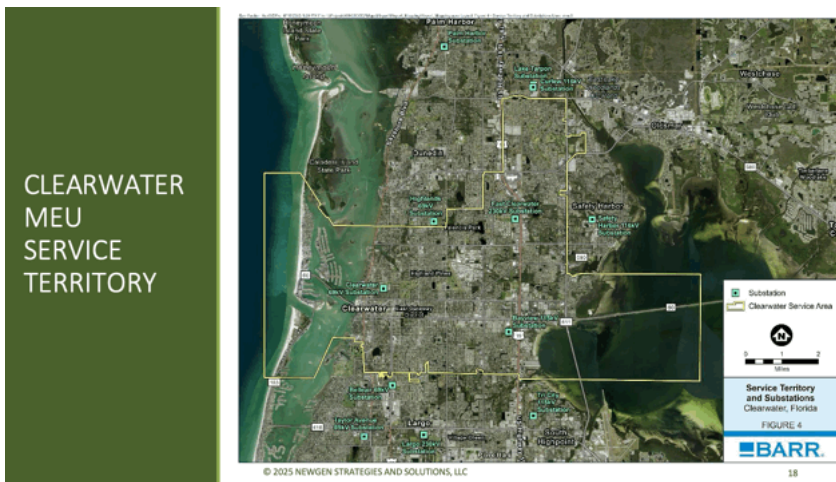
² The NewGen study does not envision, nor would it be required, that the Clearwater MEU own or operate any generation assets to serve its load. It is assumed that the Clearwater MEU would purchase wholesale power and transmission service through processes regulated by the Federal Energy Regulatory Commission (FERC).

CLEARWATER MEU SERVICE TERRITORY AREA

The Clearwater MEU service territory (see Figure 1), as proposed in the NewGen study, includes “areas along the northern portion of the City, an area adjacent to Old Tampa Bay, an area in close proximity to Highland Pines, the downtown area, an area south of downtown, and two distinct areas by the beach and Clearwater Bay (including portions of Clearwater Beach Island and Sand Key).”

FIGURE 1

PROPOSED CLEARWATER MEU SERVICE TERRITORY BOUNDARY



Source: Barr Engineering

The proposed MEU service territory includes the City’s existing municipal boundary plus a number of “enclaves” that are located within the City. These enclaves are areas that are legally outside the City’s municipal boundary; however, residents and businesses located within the enclaves receive municipal services.³ NewGen assumes that the Clearwater MEU would provide electric service to these enclaves. NewGen also estimates that, based on the density of customers within the municipal boundary, the electric load within these enclaves and within the projected MEU service territory represents an increase of approximately 20 percent.

³ Services include water and wastewater utility services, natural gas utility services, and first responder services.

The feasibility study assumes that the customer classes and usage characteristics within these areas are similar to those within the existing municipal boundary (i.e., they are no different than the general composition of the customer class data provided by Duke for the City). The feasibility study also assumes an MEU service territory that generally includes “regular and reasonable” boundary (such as a linear segment of a main road) instead of the current irregular municipal boundary of the City.

DUKE ASSET VALUE

DUKE ASSETS

NewGen conducted detailed analyses and asset assessments of approximately seven separate and non-contiguous areas within the proposed Clearwater MEU service territory to identify Duke assets that provide electrical service to customers within and around the City’s municipal boundary. NewGen assumes that the Clearwater MEU would acquire the entirety of the distribution assets in each of the three substations within its proposed service territory (specifically Clearwater Substation, East Clearwater Substation and Bayview Substation). The distribution assets within each substation include power transformers, associated high-side isolation/protection devices, and distribution buses and the feeder breakers. All Duke transmission voltage assets (defined as 69 kV and above), including those within the MEU service territory, would remain the property of Duke. Duke assets within the proposed MEU service territory are summarized in Table 1.

The proposed Clearwater MEU service territory extends beyond the City’s boundaries to include enclaves and coastal areas, increasing electric load by an estimated 20%.

TABLE 1.

ESTIMATED ASSET QUANTITIES TO BE ACQUIRED FROM DUKE WITHIN THE MEU SERVICE TERRITORY [1]

DESCRIPTION	QUANTITY (FT. OR UNITS) [2]
Substations	3
Poles, Tower, Fixtures	2,054,000
Overhead Conductors and Devices	2,054,000
Underground Conduit and Direct Burial Installations	129,500
Underground Conductors and Devices	129,500
Transformers	11,429
Services [3]	2,391,444
Meters	84,400
Streetlights and Decorative Poles	26,041

[1] Estimated asset quantities include facilities in the enclave areas based on 2025 values.
 [2] Estimated linear feet from GIS mapping. Accounts 362, 368, 370, and 373 are in units.
 [3] Services include non-linear units (pedestals, pull boxes, cabinets) which are not included in the value above.

Source: NewGen

DUKE ASSET VALUATION AND PURCHASE PRICE

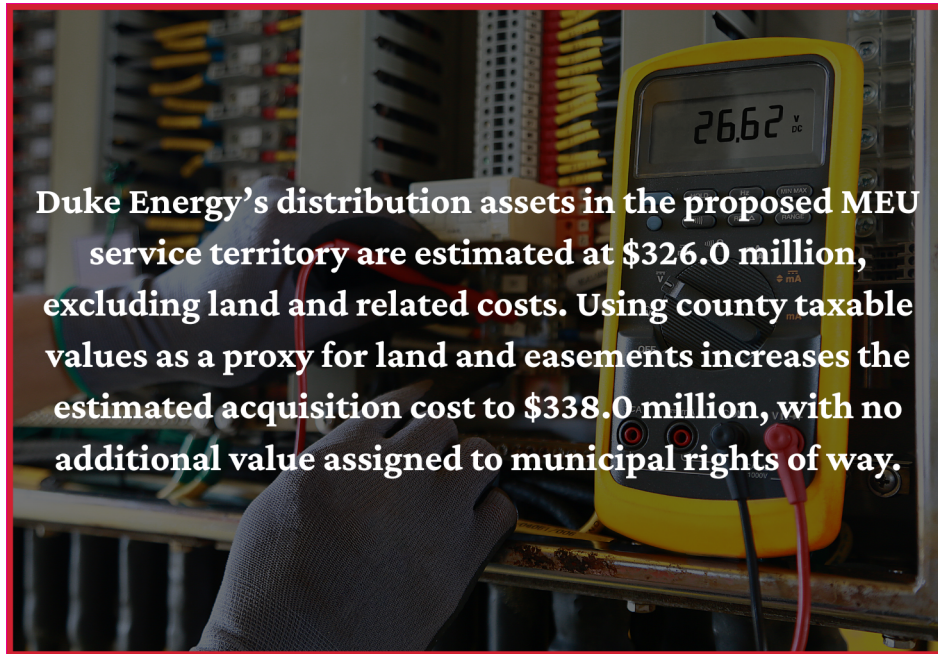
The feasibility study used calculations of customer densities within the municipal boundary to estimate that the inclusion of the enclave areas in the greater MEU service territory would increase both the electric load and the City’s cost of acquiring Duke assets by approximately 20 percent. Florida TaxWatch has concerns that the projected population increases in a predominantly built-out city like Clearwater and small density increases over the next 20 years do not justify a 20 percent increase in electric load (sales).

To develop the cost estimates, the feasibility study relied on 2025 pricing estimates and the Association of the Advancement of Cost Engineering’s (AACE) Class 5 Estimate (defined as within the range of -50 percent to +100 percent), which NewGen considers to be an appropriate range

of cost estimating for the purposes of its study. The feasibility study also used data provided by Duke and its team’s professional experience to develop estimates of the age of Duke’s distribution assets, to determine the amount of depreciation (useful life left). NewGen estimates that, on average, Duke’s distribution equipment currently serving the MEU service territory area “has incurred approximately 53 percent of accumulated depreciation relative to its useful life.”

The feasibility study utilizes the Replacement Cost New Less Depreciation (“RCNLD”) methodology to estimate the current value of Duke’s distribution assets. RCNLD calculates the present cost to replace the electric facilities to be acquired (reproduction costs) to which the accumulated depreciation associated with the assets is applied. The accumulated depreciation is essentially an estimate of the remaining useful life of the assets to be acquired.

The feasibility study points out that the RCNLD methodology has been successfully used in franchise purchase option rulings for Orlando, Casselberry, Winter Park, South Daytona, and Bushnell. Given the absence of a better methodology, Florida TaxWatch has no basis upon which to question the use of the RCNLD methodology.



Duke Energy’s distribution assets in the proposed MEU service territory are estimated at \$326.0 million, excluding land and related costs. Using county taxable values as a proxy for land and easements increases the estimated acquisition cost to \$338.0 million, with no additional value assigned to municipal rights of way.

As shown in Table 2, the RCNLD value for Duke’s total assets in the potential MEU service territory, excluding land and other costs, is estimated at \$326,038,282. No detailed examination was conducted to determine the value of each property parcel within the City, nor was precise title information associated with each parcel reviewed. Instead, NewGen used the properties’ taxable value as recorded by the Pinellas County Tax Assessor’s Office (\$12 million) as a proxy for the value of the land and easements to be acquired. When this proxy is added, the estimation price for acquiring Duke’s distribution assets increases to \$338,038,282. NewGen assumes that the Duke electric distribution lines are located in the municipal rights of way, which are already owned by the City; therefore, no additional specific value for the rights of way is assigned.

The feasibility study acknowledges that the value of assets is related to their relative RCNLD costs, in addition to compensation for “going concern” value⁴, severance and reintegration costs, and other costs. When the estimated going concern value (\$32,603,830) is included, the total asset acquisition value is estimated at \$370,642,110 (see Table 2). It is important to note that Table 2 does not include an estimate for severance and reintegration costs, and other costs, which are discussed later in this report.

It is also important to note that the taxable value of the improvement and land for each parcel may or may not be reflective of their fair market value. NewGen also acknowledges that, should the City decide to pursue establishment of the Clearwater MEU, “a detailed appraisal of the assets to be acquired, including the value of the land in easements and in fee, will likely need to be conducted.”

⁴ Going concern value is the worth of a business as an ongoing, profitable operation, assuming it will continue to function and generate income in the future, unlike its liquidation value (what assets bring if sold off). Going concern value is higher than just asset value because it includes intangibles like brand, customer base, skilled workforce, systems, and the earning power of the whole entity, reflecting its ability to generate future cash flows.

TABLE 2.
ESTIMATED CLEARWATER MEU SERVICE TERRITORY ACQUISITION VALUE

DESCRIPTION	RCN	DEPRECIATION	RCNLD
Substations	\$47,900,944	53%	\$22,420,959
Poles, Tower, and Fixtures	\$111,297,928	65%	\$39,158,038
Overhead Conductors and Devices	\$85,321,209	62%	\$32,282,969
Underground Conduit and Direct Burial Installations	\$16,365,802	32%	\$11,188,257
Underground Conductors and Devices	\$18,738,634	40%	\$11,234,728
Transformers	\$185,640,562	52%	\$89,850,330
Services	\$34,210,299	51%	\$16,631,676
Meters	\$125,361,514	55%	\$55,994,809
Streetlights and Decorative Poles	\$69,695,109	32%	\$47,276,516
Total Asset [1]	\$694,532,001	53%	\$326,038,282
Land / Easement Estimated Value [2]			\$12,000,000
Total Acquisition Value [3]			\$370,642,110
[1] RCNLD value for total assets in potential MEU service territory, excluding land. [2] Land/Easement estimated value derived from taxing authority records; land does not depreciate. [3] Total Acquisition Value incorporates estimated value for going concern premium and land / easement value, excludes severance / reintegration cost estimates.			
<i>Source: NewGen</i>			

CLEARWATER MEU ELECTRIC LOAD

The feasibility study used growth projections for customers to apply to the number of customers within the Clearwater MEU service territory to develop an estimate of the total usage over the study period. Table 3 provides a summary of the customers and load (sales) by customer class for 2026.

TABLE 3.

ESTIMATED NUMBER OF CUSTOMERS AND LOAD FOR CLEARWATER MEU SERVICE TERRITORY

CUSTOMER CLASS	NUMBER OF CUSTOMERS	kWh/MONTH/CUSTOMER	TOTAL ANNUAL kWh SALES (2026)
Residential	75,944	891	811,933,529
Commercial	10,212	6,352	778,428,925
Industrial	77	54,818	50,405,231
Public Authority	743	15,252	135,903,084
Lighting	464	327	1,820,497
Total	87,440		1,778,491,267
[1] Estimated customers and load by class based on information provided by Duke.			
<i>Source: NewGen</i>			

AVERAGE EFFECTIVE RETAIL RATE

To determine the average effective “all-in retail rate” for customers within the Clearwater MEU service territory, the feasibility study used an analysis of average effective retail rates by customer class published by Duke as part of a settlement agreement with the Florida PSC in March 2025.⁵ The Duke analysis included projected rate increases 2025, 2026, and 2027. Beyond 2027, NewGen assumed (based upon on a historical analysis of PSC-approved rates for Duke) that Duke rates will increase at the general rate of inflation of 2.2 percent, as published by Blue Chip Economic Indicators, Inc. A summary of NewGen’s analysis⁶ is provided in Table 4.

⁵ PSC Docket No.202400025-EI.

⁶ This analysis was based on the total retail sales for each customer class times the various rate components included in Duke’s published tariff, divided by the total average annual electrical load (in kWh). This included base rates as well as the various rate adjustments, taxes, and riders applicable to customers within the City.

TABLE 4.

2026 AVERAGE EFFECTIVE ALL-IN RETAIL RATES (\$/kWh) FOR DUKE CUSTOMERS BY CLASS FOR CLEARWATER MEU

CUSTOMER CLASS	AVERAGE ANNUAL LOAD (kWh)	AVERAGE RATE 2026 (\$/kWh) [1]
Residential	811,933,529	\$0.1778
Commercial	778,428,925	\$0.1159
Industrial	50,405,231	\$0.0734
Public Authority	135,903,084	\$0.1229
Lighting	1,820,497	\$0.3119
Total	1,778,491,267	\$0.1437
[1] Average effective all-in rates for 2026 is the average rates by customer class from Duke as approved in Florida PSC rate case.		
<i>Source: New Gen</i>		

SEVERANCE AND REINTERGRATION

If the City decides to go forward with the establishment of the Clearwater MEU, it would have to develop and implement a detailed severance and reintegration plan that would detail the costs and investments required to allow two distinct distribution systems —reliable electric service for customers who are served by the Clearwater MEU and reliable electric service for customers who continue to be served by Duke—to operate independently.

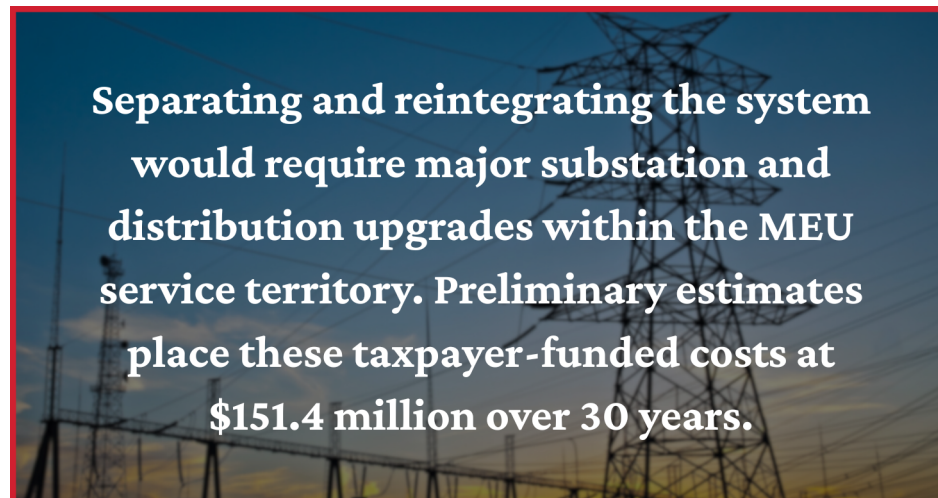
Although the development of a detailed severance and reintegration plan was not part of the NewGen study, NewGen does provide a preliminary estimate of the costs associated with severance and reintegration. The financial analysis included in the NewGen study allocates \$5,046,433 for “severance and system build” each year from 2026 to 2055. Given that the amount does not change from one year to the next, this allocation for severance and system build appears to be a “placeholder.”



Severing and reintegrating the system would require the City to make the following improvements and install the following equipment within the MEU service territory:

- Substation construction—new control enclosures as well as switching, interrupting, metering, and protection equipment to isolate each substation power transformer high voltage primary connection from the transmission system buses.
- Distribution system — construction of overhead and underground distribution lines around the border of the MEU service territory to serve Duke customers outside the border and MEU customers inside the border.
- Distribution construction plan — would need to include feeders to connect the border feeder circuits to different substations as necessary.

Severance costs may also include payments made by the City for Duke’s distribution-related assets that the City does not acquire but that would become isolated and unusable to Duke after the acquisition. The actual severance and reintegration costs, which will be borne by the taxpayers, are unknown; however, based upon the preliminary estimate provided by NewGen (\$151.4 million over the next 30 years), they are expected to be substantial.



Separating and reintegrating the system would require major substation and distribution upgrades within the MEU service territory. Preliminary estimates place these taxpayer-funded costs at \$151.4 million over 30 years.

LONG-RANGE CAPITAL PLANNING

Upon acquisition of Duke’s distribution assets, the City would need to develop a detailed long-range capital facilities plan to guide the replacement of aging facilities and add new construction to address load growth within the Clearwater MEU service territory. Although the development of a long-range plan was outside the scope of NewGen’s study, New Gen did include an estimate of the costs associated with future capital investments. These investments include:

- Replacing the distribution substations to be acquired by the City, (estimated at Year Five) and ongoing replacements over time;
- Adding the equivalent of one substation at Year 15 to address future growth;
- Replacing overhead distribution facilities (approximately 30 percent of existing facilities over the study period);
- Replacing underground distribution facilities (replacement of ten percent of existing cables and devices in Years ten to 20);
- Replacing overhead and pad-mounted distribution transformers (approximately 20 percent of existing facilities over the study period);
- Replacing service conductors (approximately five percent of the existing facilities over the study period);
- Replacing approximately 20 percent of existing smart grid meters in the first five years, then the remainder of the smart grid meters over Years six to 20;
- Replacing approximately 20 percent of the streetlights over the study period;
- Adding a new distribution automation system in the first five years; and
- Adding equipment for a new control center in the first two years after the creation of the Clearwater MEU.

All of these investments are projected to increase with system growth by approximately ten percent over the next 20 years. It is unclear whether the City will use Clearwater MEU or other staff to develop the long-range capital facilities plan or use consulting services. If the City chooses to use consultants in this planning process, the costs would be borne by the taxpayers.

LEGAL AND REGULATORY CONSIDERATIONS

STRANDED COSTS

The feasibility study also acknowledges that their estimated severance damages do not include “stranded costs.” A stranded cost is a capital cost that cannot be recovered when the income from electricity sales is reduced either by customers using less electricity or by customers leaving the system. NewGen maintains that stranded costs would be unavailable to Duke and did not include stranded costs in its study because:

- It was assumed that the Clearwater MEU would continue to utilize the generation and transmission assets of Duke for its power supply and power delivery needs. These services would be provided to the Clearwater MEU under the applicable FERC established rules and regulations;⁷ and
- The City’s likely course of action to acquire Duke’s distribution assets would be through the state’s eminent domain statute (Subsection 73.0175, Florida Statutes) which does not include consideration of stranded costs in its definition of acquisition value.

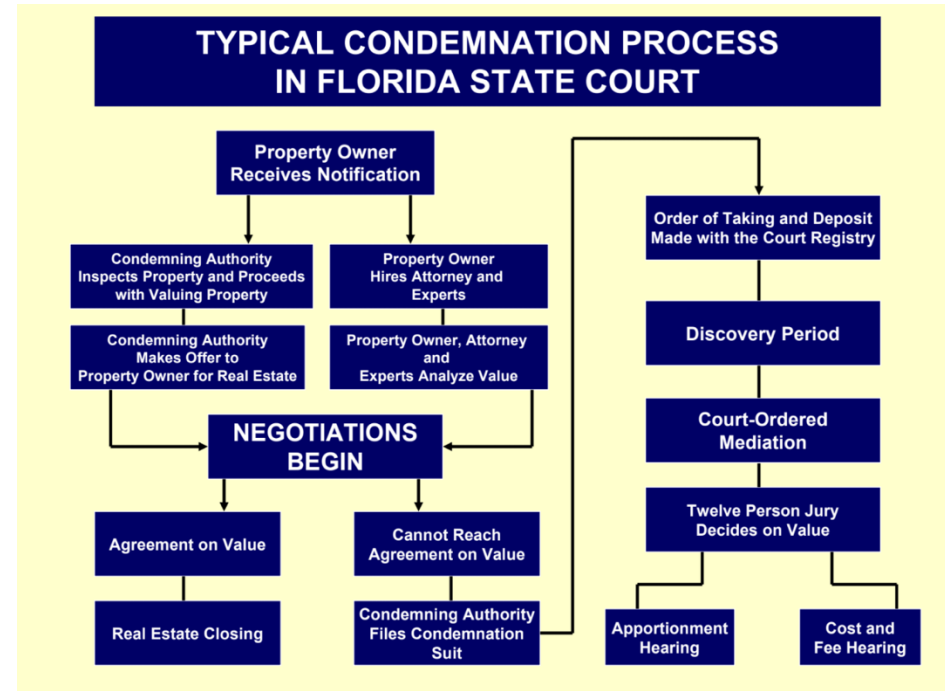
The feasibility study suggests that the stranded cost issue could be rendered moot if the City entered into a wholesale full requirements contract with Duke effective upon the activation of the MEU. This would effectively eliminate any contention that the formation of a MEU and entry into a network integration service transmission relationship with Duke would create Duke generation costs that were “stranded” by the municipalization. NewGen acknowledges that a detailed severance and reintegration plan should be developed should the City decide to move forward with the Clearwater MEU. Should the City hire a consultant to prepare this plan, the costs (which are unknown) would be borne by the taxpayers.

EMINENT DOMAIN

The feasibility study acknowledges that, given Duke’s unwillingness to sell its distribution assets and the absence of a purchase option in the Franchise Agreement, the City will have to go through the process of eminent domain, as outlined in Article X, Section 6 of the Florida Constitution

and Subsection 73.0715, Florida Statutes, to acquire Duke’s distribution assets within the MEU service territory. This process, which is outlined in Figure 2, is likely to be lengthy and expensive.

FIGURE 2.



Source: Moore, Bowman, & Reese, P.A. (<https://www.mbrfirm.com/learn/eminent-domain-flowchart>)

Under Florida’s eminent domain law, Duke would be entitled to a 12-person jury trial, which will determine solely the amount of compensation to be paid. This determination includes the reproduction cost of the assets sought to be appropriated (less depreciation), together with going concern value, and, when less than the entire property is sought to be appropriated, any damages to the remainder caused by the taking.⁸

⁷ FERC’s decision in *City of South Daytona*, 137 FERC ¶ 61,183 at PP 28–42 (2011) held that a newly formed municipal electric utility would have no stranded cost exposure to its formerly incumbent retail power supplier where it continued to purchase its wholesale requirements from the former incumbent utility.

⁸ §73.0715, Fla. Stat.

The City would be responsible for paying not only its attorney fees, but Duke's attorney fees as well. The award of attorney fees will be based on the benefits achieved for the client (City), and awarded according to the following schedule:

- 33 percent of any benefit up to \$250,000; plus
- 25 percent of any portion of the benefit between \$250,000 and \$1 million; plus
- 20 percent of any portion of the benefit exceeding \$1 million.⁹

The City will also be required to pay "all reasonable costs" incurred by Duke in the defense of the proceedings. This includes, but is not limited to, reasonable appraisal fees and, when business damages are compensable, a reasonable accountant's fee, to be assessed by the court.¹⁰

OPEN ACCESS

Federal Energy Regulatory Commission (FERC) "open access" rules require investor-owned transmission-owning utilities with interstate power lines to provide open access to their transmission systems for all electricity generators (utility or third-party) at cost-based rates. This is designed to foster competition in wholesale power markets by preventing local monopolies from favoring their own power sources, leading to more efficient and cheaper power for consumers.

The feasibility study assumes that the Clearwater MEU would obtain transmission-level service from Duke through its published Open Access Transmission Tariff (OATT). NewGen acknowledges that, should the City decide to proceed with the formation of the Clearwater MEU, it would very likely need to apply for and obtain network transmission service under Duke's FERC-filed OATT. This process involves: (1) an application for network integration transmission service; (2) a system impact study; (3) a facilities study; and (4) a facilities agreement should it prove necessary that Duke construct new facilities to serve the City as a wholesale and transmission customer. The costs involved in obtaining network transmission service under Duke's FERC-filed OATT, which will be borne by the taxpayers, are unknown.

CLEARWATER MEU ORGANIZATION

The feasibility study suggests the City consider establishing either a department of the City or a utility authority / commission to manage and operate the Clearwater MEU. Both have advantages and disadvantages. NewGen acknowledges that the City has owned and operated a natural gas utility (CGS Energy) in the region since 1923 and suggests that, if MEU was established as a department of City government, the finance, accounting, and billing operations of CGS Energy could potentially be shared, providing significant efficiencies and potentially reduced costs for the Clearwater MEU operations. Regardless how the MEU organized, there will be costs that are currently unknown.

ESTIMATED WHOLESALE POWER PRICES

FERC allows investor-owned utilities to make power sales at market-based (negotiated) rates if the seller and its affiliates do not have, or have adequately mitigated, sufficient market power. NewGen asserts that Duke's control of a substantial majority of the electric generating resources within its "Balancing Authority Area" (electric service territory), Duke has substantial market power, giving it the ability to control prices or to foreclose competition within that Balancing Authority Area. As a result of this market power, Duke does not have FERC authorization to sell power at negotiated ("market-based") rates in its own Balancing Authority Area and is therefore required to sell power at "cost-based" rates within its Balancing Authority Area.

NewGen acknowledges that, in contrast to a public utility's obligation to provide retail electric service, "there is no express obligation to serve wholesale customers under the Federal Power Act," and "any obligation by a utility to provide service beyond those defined by contract will stem from the inability of the wholesale customer to obtain access to alternative suppliers." NewGen points out that a refusal by Duke to provide cost-based service at wholesale prices would demonstrate that Duke has no truly "stranded" generation costs.

⁹ §73.092(1)(c), Fla. Stat.

¹⁰ §73.091(1), Fla. Stat.

FINANCIAL MODEL

The feasibility study developed a financial model to determine the financial feasibility of the Clearwater MEU. The projected revenues recovered from retail rates through the sales of electricity to Clearwater MEU customers were assumed to be equal to the annual required revenue. The annual required revenue was equal to the sum of the operating expenses, the non-operating expenses, and the cash required for operating reserves. The total required revenue was then divided by the total load (sales) to determine an effective “all-in average system rate” for the Clearwater MEU. The feasibility study calculated a similar effective average all-in system rate for Duke rates reflective of the customer mix estimated within the MEU service territory.

The financial model assumed an “overnight” conversion to an MEU, which does not acknowledge the time required for the City to acquire Duke’s assets. It does, however, allow for a comparison of the estimated all-in Clearwater MEU rates with those published and readily available from Duke. In addition, the use of current year (2025) reproduction cost data by the feasibility study allows for more certainty in the estimated costs to acquire the distribution-related assets from Duke, including cost estimates for severance and reintegration.

Full acquisition of Duke’s distribution assets (including severance and reintegration) would likely require a period of several years, especially if the City pursues the path of eminent domain. If the City chooses to go forward with the establishment of the Clearwater MEU, the feasibility study recommends the City use a “reasonable” timeframe in its analyses.

INITIAL OPERATIONS COSTS

As shown in Table 5, the initial operation of the Clearwater MEU would require a source of cash to fund various activities prior to, and within, the first six months of operations. After this initial period, the feasibility study assumed that revenue from retail energy sales would support the ongoing cash needs of the Clearwater MEU. The feasibility study identifies three categories of initial operations costs:

- (1) those associated with the start-up of the Clearwater MEU prior to operations;
- (2) those associated with the projected cash needs (financial reserves); and
- (3) those associated with the severance and reintegration costs.

TABLE 5.
ESTIMATED START-UP COSTS FOR CLEARWATER MEU

TYPE	DESCRIPTION	AMOUNT [1]
Start-Up Costs		
Regulatory and Professional Fees	Estimated transaction costs	\$15,000,000
Municipal Operations Center	Estimated new build	\$30,000,000
Starting A&G Plant	Estimated initial investments	\$5,000,000
Equipment / Systems / Labor	Estimated for operating systems	\$20,000,000
Subtotal		\$70,000,000
Reserve Costs		
Working Capital Contribution	90 Days First Year O&M	\$35,015,000
Rate Stabilization Contribution	20 percent First Year O&M	\$28,401,000
Severance / Reintegration Costs		
Severance (including contingencies)	Estimated investment required to sever and reintegrate distribution system	\$67,785,000
Subtotal		\$131,201,000
Total Estimated Costs		\$201,201,000
[1] Values are rounded and may not add up.		
<i>Source: NewGen</i>		

The feasibility study estimated the start-up costs to be \$70 million. Of this total, \$15 million is expected to be spent on regulatory and professional services, which includes attorney and consultant fees, regulatory fees, and other fees/charges to support the acquisition of Duke distribution assets. These estimates were based on professional experience, and no bids or quotes were solicited. The feasibility study assumed that a Municipal Operations Center facility would be needed to house staff, management, information technology (IT) systems, distribution equipment and related plant, and to serve as a payment center for customers. The City estimates that the Municipal Operations Center would cost about \$30 million.

Other start-up related cash needs for the Clearwater MEU include a requirement for estimated A&G plant (vehicles, computers, desks, etc.), estimated at \$5 million, as well as estimated costs in the amount of \$20 million for equipment, operating systems, and initial labor costs.

The feasibility study estimated the severance / reintegration costs to be approximately \$68 million (which includes provisions for contingencies). It is assumed that these start-up related costs would be amortized with the issuance of debt by the City and/or the Clearwater MEU over a 30-year period; and that debt issued for the regulatory and professional fees and equipment, support systems, and initial labor costs would be at a taxable rate of 6.5 percent. The debt issued for the Clearwater MEU Municipal Operations Center and starting A&G plant would be at a tax-exempt rate of 5.5 percent. The debt service for these revenue bonds would be recovered through the rates charged for providing electric service to the Clearwater MEU customers.

CONTINUED OPERATING COSTS

Once in operation, the Clearwater MEU will require additional cash for continued operations. As shown in Table 6, this includes the purchase and delivery of electric power, MEU operating expenses, and the maintenance of operating reserves. The total operating and non-operating expenses for the first year of the Clearwater MEU's operation (2026) are estimated at \$230,000,000.

Most utilities own their own generation, transmission, and distribution plant infrastructure, which has been designed and operated primarily to serve their own customers (load). There are several publicly owned utilities (e.g., the proposed Clearwater MEU) that do not own electric generation facilities and must purchase wholesale electric power through contracts with generation-owning entities.

One such entity is the Florida Municipal Power Agency (FMPPA), a consortium of 33 municipal utilities whose mission is to “provide low-cost, reliable, and clean power and value-added services for FMPPA’s member-owners that benefit their communities and customers.” The feasibility study expressed concern that the load requirements for the Clearwater MEU may exceed any excess generation capacity currently owned by FMPPA members and assumed that the Clearwater MEU would purchase wholesale power from Duke. Duke currently provides wholesale power to a handful of Florida communities for resale through what is characterized as “requirements (RQ) service.” RQ service is provided on an ongoing basis and at the same reliability experienced by Duke’s retail customers.



Initial operations of the Clearwater MEU would require upfront funding before revenues begin, with start-up costs estimated at \$70 million and severance/reintegration costs at about \$68 million. These costs would be financed through long-term debt and ultimately recovered through electric rates charged to customers.

TABLE 6.
MEU FINANCIAL MODEL RESULTS FOR YEAR 1

LINE ITEM	2026 COST [1]
Operating Revenues	\$230,000,000
Projected Operating Expenses	
Power Supply	\$88,000,000
Transmission Expense	\$20,000,000
Distribution Expense	\$12,000,000
Customer Expense	\$9,000,000
General and Administrative Expense	\$13,000,000
<i>Total Operating Expenses</i>	\$142,000,000
Non-Operating Expenses	
Taxes / Franchise Fee Replacement	\$19,000,000
Renewals and Replacements (Cash)	\$17,000,000
Annual Debt Service	
System Debt Service [2]	\$31,000,000
Severance / Reintegration	\$5,000,000
Start-Up Cost / Reserves	\$11,000,000
<i>Total Non-Operating Expenses</i>	\$83,000,000
Cash Required for Debt Service Coverage [3]	\$0
Cash Required for Reserves	\$5,000,000
Total Expenses	\$230,000,000
Average Retail Rate Analysis	
Total Sales (MWh)	\$1,778,491
Average Clearwater MEU Rate (\$/kWh) [4]	\$0.1294
Average Clearwater Duke Rate (\$/kWh) [5]	\$0.1437
[1] Numbers may not add due to rounding. [2] System debt service based on adjusted RCNLD including going concern and value of land. [3] Cash required for Debt Service Coverage included in issuance costs for Year 1 and becomes a revenue requirement (cash) item in subsequent years. [4] Total annual operating and non-operating expenses (revenue requirement) divided by total sales. [5] Duke all-in effective rate developed in Table 4.	
<i>Source: NewGen</i>	

The feasibility study used the Central Florida Tourism Oversight District (formerly the Reedy Creek Improvement District) as a proxy to estimate the Clearwater MEU’s future power costs. Table 7 provides a summary of the cost elements included in the estimated wholesale power price for transmission voltage service, which is estimated to be \$59.16 per MegaWatt hour (MWh). This translates to approximately \$88 million annually for power supply.

Transmission expenses were estimated at approximately \$65,280 per MegaWatt Year (MW-yr) using information from Duke’s OATT filing. This cost was then applied to the estimated sum of monthly peak demands for the Clearwater MEU to generate a total cost for transmission services. Dividing this total cost by the total energy to be purchased results in an equivalent rate of \$10.94 per MWh (\$20 million annually) for 2026, as shown in Table 7. This cost was assumed to increase at the general rate of inflation of 2.2 percent per year over the study period.

TABLE 7.
2026 ESTIMATED WHOLESALE POWER PRICE (\$/MWH) AT TRANSMISSION VOLTAGE

WHOLESALE POWER COSTS ELEMENTS	2026 PRICE (\$/MWH)
Reservation Fee	\$6.97
Variable O&M Expenses	\$1.45
A&G Expenses	\$2.02
Fuel & Purchased Power	\$37.78
Transmission	\$10.94
Total	\$59.16
<i>Source: NewGen</i>	

The feasibility study acknowledged that transmission costs vary widely in Florida and depend on the nature of the service provided (point-to-point compared to network) and the location of the load, as well as the specific schedule and administrative costs. The Team recommended the City analyze alternative transmission options if the City elects to move forward with the Clearwater MEU.

Operating costs for the Clearwater MEU include distribution expenses, customer expenses, Administrative and General (A&G) expenses, and other charges and fees. The costs for these operational requirements annually were estimated based upon a ratio of Duke’s costs, which were then adjusted based on the NewGen Project Team’s professional experience.

Distribution expenses were calculated using the ratio of the total distribution O&M costs (for Duke’s Florida operations, as provided in its regulatory filings) to the total number of customers served at the system level. This ratio was applied to the number of total customers estimated to be served in the MEU service territory to determine the annual base costs to provide O&M distribution services. These values were then adjusted to reflect the anticipated expenses based on the professional experience of the NewGen Project Team. As shown in Table 6, distribution expenses were estimated at \$12 million annually.

Customer expenses were calculated using the ratio of the total Duke customer-related costs to the total number of customers within its statewide service territory. This ratio was then applied to the total number of customers within the MEU service territory to determine the annual base cost to provide customer-related services. As shown in Table 6, customer expenses were estimated at \$9 million annually.

For the A&G expenses, the feasibility study used the ratio of Duke’s total distribution O&M and customer-related costs to the total A&G costs. This ratio was then applied to the calculated distribution O&M and customer-related costs (total) for the MEU service territory to estimate of the costs for the Clearwater MEU to provide A&G services. The feasibility study assumed that the Clearwater MEU would pay a “nearby entity” to provide distribution O&M services for the first four years or until such time as the Clearwater MEU could fully staff its operations. This would allow the City to manage the MEU with experienced personnel while it determines how and when it would hire and train its own staff. The feasibility study estimated the A&G costs to be \$13 million annually. The City would need to evaluate the trade-off between continuing to pay the O&M fee and developing its own staff to provide distribution O&M services going forward.

NON-OPERATING COSTS

The financial model developed by NewGen identifies the following non-operating expenses: payments to local governments in lieu of taxes and franchise fees paid by Duke; investments in the distribution system; debt service for system acquisition; severance and integration; start-up related costs; and funding of operating reserves. According to NewGen, Duke’s retail rates recovered approximately \$6.5 million in taxes from the Clearwater customers in 2024, which was remitted to government entities. This included approximately \$825,000 in ad valorem (property) taxes paid to the City. Even though the Clearwater MEU would most likely be tax-exempt (government owned), the feasibility study assumed that the Clearwater MEU would be responsible for collecting a similar payment in lieu of taxes from its customers. The franchise fee paid to the City by Duke (six percent of gross revenues from sales within the City) generated approximately \$11 million in 2024. The feasibility study included a similar internal transfer, referred to as a “franchise fee replacement” in its financial model.

“Renewals and replacements” refer to normal capital expenditures and investments in the system.

These expenditures are assumed to be approximately \$19.4 million per year for the first ten years of operations, increasing to approximately \$33 million for the second ten-year period based on an assessment of the condition of the assets to be acquired. The feasibility study assumed that these investments would be funded with cash from rates and that, after Year 20, these investments would be equal to the annual depreciation expense of the entire MEU asset base.

The system debt service costs, estimated at \$31 million annually, are based on the issuance of 30-year bonds for the acquisition at the taxable rate of 6.5 percent. The start-up debt service was based on the issuance of 30-year bonds for the start-up costs at a tax-free rate of 5.5 percent. The operating reserves are assumed to be equal to the difference between the cash available for debt service and the total non-operating expenses.¹¹ There is also an expectation that the Clearwater MEU would maintain financial reserves, including: (a) a Working Capital Fund (90 days cash); and (b) a Rate Stabilization Fund (equivalent to 20 percent) of its total operating cash needs.

¹¹ This assumes a debt service coverage ratio of at least 1.5 times the debt service requirement.

ALL-IN-AVERAGE RATE

The effective “all-in” rate is used to compare the potential costs of operating the Clearwater MEU to the costs of continued service from Duke. This rate is the result of the total revenue requirements — including operating and non-operating expenses, annual debt service, and financial reserves — divided by the total projected load (sales) for the MEU service territory, to determine a “\$/kWh” rate utilized for feasibility and comparative purposes for this study. The financial model compared the annual average system rates over the study period (2026–2055). This rate was generally assumed to increase at the rate of inflation (2.2 percent annually). As shown in Table 6, the Clearwater MEU Average Retail Rate is calculated at \$0.1294 per kilowatt hour. This is less than the \$0.1437 rate calculated for Duke.

POTENTIAL SAVINGS

The feasibility study estimates that, during the first five years of Clearwater MEU operation, the average retail rate for the Clearwater MEU will be approximately seven percent lower than the corresponding estimated all-in rate for Duke, generating an annual savings of about \$22.4 million in Year 5. The average retail rate for the Clearwater MEU is estimated to be approximately 18 percent lower than Duke’s rates for the remainder of the study period. The projected savings (see Table 8) are expected to increase over time because of the Clearwater MEU’s fixed debt service payment requirement and because of the assumptions regarding increases in Duke’s rates.

According to the feasibility study, it is reasonable to expect the projected all-in effective rates for the Clearwater MEU to be lower than the projected rates for Duke because: (1) the City has access to lower cost of capital (debt service) than Duke; (2) the City does not include profit in its revenue requirement (and does not have to provide a return to its shareholders); and (3) the City does not have to pay (corporate) income taxes.

TABLE 8.
ANNUAL SAVINGS ANALYSIS

	YEAR 1 (2026)	YEAR 5 (2030)	YEAR 10 (2035)	YEAR 20 (2045)
Total Annual Sales (kWh)	1,778,491,267	1,872,967,084	1,995,432,383	2,264,005,967
Clearwater MEU Effective All -in- Rate (\$/kWh)	\$0.1294	\$0.1339	\$0.1405	\$0.1654
Total Clearwater MEU Revenue	\$230,141,351	\$250,804,800	\$280,412,040	\$374,388,297
Duke Effective All -in- Rates in Clearwater (\$/kWh)	\$0.1437	\$0.1459	\$0.1632	\$0.2041
Total Duke Revenue in Clearwater	\$255,586,560	\$273,236,668	\$325,557,944	\$461,975,654
MEU and Duke Revenue (\$ Savings)	\$25,445,209	\$22,431,868	\$45,145,903	\$87,587,357
Difference in Effective Rate	10%	8.2%	13.9%	19.0%
<i>Source: NewGen</i>				

ANALYSIS

HIGH MUNICIPALIZATION FAILURE RATES

It is important to understand that a large percentage of the more than 2,000 MEUs and 900 electric cooperatives in the U.S. were established in the early 1900s and have an average age of 85 years or more. These MEUs were built slowly and expanded as the need for electric power increased.¹² Conditions under which public power was established nearly 100 years ago no longer exist today.

Creating an MEU at today's market prices requires large amounts of capital and a long-term commitment on the part of the municipality to acquire and maintain utility assets in order to provide safe, reliable, and affordable electric service for its customers.

Research¹³ has shown that, since 2000, only a handful of the attempts to municipalize a community's electric service were successfully completed, and those utilities that were municipalized seldom delivered on their promises. Ratepayers rarely saw lower prices; customer service failed to appreciably improve; no more clean/renewable energy was produced; and taxpayers were left to foot a sizeable bill for the purchase of the assets.

A 2019 report by Concentric Energy Advisors found that, since 2000, more than 60 communities have considered, or are currently considering, municipalization of the electric utility. Of this total, only nine have municipalized and two of these ended up selling the electric utility back to its previous IOU owner.¹⁴ More recent research shows that, since 2020, of the 16 communities that have considered municipalization, only one has completed its municipalization and one is in the middle of its process. The remaining communities are bogged down in reports and studies and multiple votes by ratepayers and/or legislators.¹⁵ A summary of the municipalization efforts since 2000 is provided in the Appendix.

So...since 2000, more than 75 communities have considered or are considering municipalization of the electric utility. Of this total, only 10 (13 percent) succeeded and two of those successes ended up selling the electric utility back to its previous IOU owner. Municipalizations fail to proceed for a number of reasons. A review of municipalization case studies suggests three primary reasons for the failures: (1) cost escalation; (2) length of time required; and (3) reluctance of the voters to approve municipalization.

COST ESCALATION

Feasibility studies performed on behalf of municipalities frequently underestimate the cost of completing municipalization efforts. This is especially true in municipalizations like the Clearwater MEU, that do not have the cooperation of the existing utility service provider. Although most of the communities initiating municipalization use the fair market value as the standard for acquiring utility assets, the final acquisition costs can be uncertain, given the complexity of the process. Because MEUs are usually smaller than an IOU, they are less likely to capitalize on economies of scale to lower their operating costs. Costs also tend to be higher for new MEUs because the assets are expensive to purchase and, because an MEU has comparatively fewer customers, the costs of operating the utility must be shared by a smaller number of ratepayers.

There is also the risk of immediate financial impact to taxpayers due to costs required for litigation that cannot be funded through municipal bonds and must come from general funds or some other source. Even using NewGen's assumptions, it is likely that the City would need to increase its millage rate to raise capital for acquisition costs that cannot be financed through municipal bonds.

¹² Concentric Energy Advisors, "Electric Utility Privatization: An Analysis of Why Municipalization Efforts Fail," October 2019.

¹³ See Concentric Energy Advisors, "Electric Utility Privatization: An Analysis of Why Municipalization Efforts Fail," October 2019, and Ike Brannon, Ph.D., and Samuel Wolf, "2020 to Present: Electric Utility Privatization Attempts by Municipalities and Why They are Unsuccessful," August 2025.

¹⁴ Supra, see footnote 12.

¹⁵ Ike Brannon, Ph.D., and Samuel Wolf, "2020 to Present: Electric Utility Privatization Attempts by Municipalities and Why They are Unsuccessful," August 2025.

LENGTH OF TIME REQUIRED

Acquisition of assets is not something that happens overnight. The process of municipalization is lengthy, even if the municipality has the cooperation of the existing utility service provider. That is certainly not the case with the Clearwater MEU. Municipalization can take years. After completion of the feasibility study, the City may choose to put this issue before the voters in a regular or special election. If the voters approve, then the City and Duke would ordinarily begin negotiation in hopes of agreeing on the purchase price for Duke distribution assets. Duke has made it clear that it has no intention of selling its assets. If the City pursues the route of eminent domain, one could expect the acquisition process to last a decade or longer. That means Year 1 in the NewGen Project Team's financial model is more likely to be 2036 than 2026. Both the court's condemnation and any review by the Florida Public Service Commission would require additional time and expense to be incurred by the City (including the legal and consulting fees incurred by Duke).

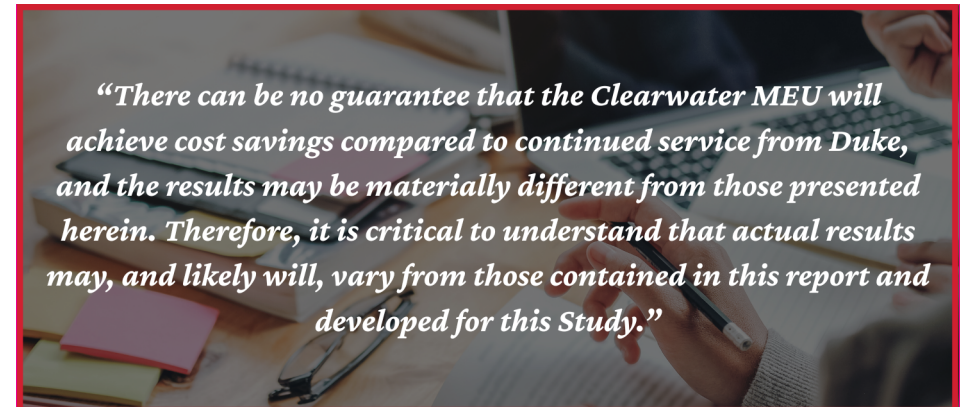
VOTER RELUCTANCE TO APPROVE

It is important to note that, when ratepayers are asked to vote on municipalizing their electric utility, the voters overwhelmingly choose against municipalizing. As shown in the Appendix, voters in Boulder (Colorado), Decorah (Iowa), El Paso (Texas), Maine, and Pueblo (Colorado), have all recently rejected efforts to municipalize electric power.

ASSUMPTIONS AND DISCLAIMERS

The feasibility study goes to considerable lengths to make sure the reader understands the limitations and qualifications that accompany this feasibility study. The feasibility study offers no assurances that the assumptions in the study are the only assumptions that the City should consider in its deliberations regarding the formation of a Clearwater MEU. It is also expressly clear and understood that the assumptions contained in the study are: (1) based on a single point in time; (2) based on the best available information provided by Duke, the City, and public sources; and (3) subject to change with changes in the economy, utility industry, and other aspects of Florida society.

The feasibility study acknowledges that external events could occur, or new information could become available, that would have an impact on these assumptions. In such an event, the findings in the study, **including the potential savings associated with the formation of the Clearwater MEU (emphasis added)**, could be adversely impacted. The feasibility study concludes that:



It is clear from the above passage that, not only “may” the actual results of the MEU vary materially from those in the feasibility study, but the actual results are also “likely” to vary materially from those in the feasibility study.

The one assumption that Florida TaxWatch finds most troubling is the assumption that the acquisition of Duke's assets and the conversion to an MEU will occur “overnight.” This assumption fails to acknowledge the time required for the City to acquire Duke's assets. It does, however, allow for a comparison of the estimated all-in Clearwater MEU rates with those published and readily available from Duke. Full acquisition of Duke's distribution assets (including severance and reintegration) would likely require a period of several years, especially if the City pursues the path of eminent domain. If the City chooses to go forward with the establishment of the Clearwater MEU, the feasibility study recommends the City use a “reasonable” timeframe in its analyses.

As discussed above, the process of municipalization is lengthy, especially when acquisition of the utility's assets is likely to be pursued through eminent domain. Assuming an "overnight" conversion to an MEU, Year 1 of the financial model upon which the feasibility study bases its determination that municipalization is "feasible" is 2026. When the additional time and costs associated with eminent domain are considered, Florida TaxWatch believes Year 1 will be closer to 2036 than 2026. This assumption of an overnight conversion invalidates the financial model upon which the feasibility of the Clearwater MEU is based.

The feasibility study also acknowledges that, should the City decide to pursue establishment of the Clearwater MEU, "a detailed appraisal of the assets to be acquired, including the value of the land in easements and in fee, will likely need to be conducted."

The feasibility study assumes a 20 percent increase in electric load within the MEU service territory over the next 15 years. The City of Clearwater's current comprehensive plan ("Plan")¹⁶, adopted in January 2024, acts as a long-term blueprint for growth, development, land use, and quality of life, guiding decisions on everything from housing and transportation to environment and public services. The Clearwater Planning Area includes 14,183 acres that make up the incorporated city limits and 3,314 acres of

unincorporated Pinellas County (ostensibly the enclaves). The Plan refers to Clearwater as a "predominantly built out city," suggesting Clearwater is a mature city that is at or near its physical development limits.

According to the Plan, the City's 2020 population was estimated 117,292, representing a density of 8.27 persons per acre.¹⁷ By the year 2040, population within the City's incorporated area is expected to grow by nearly 5,000 to 122,713. This represents a density of 8.65 persons per acre.¹⁸ By the year 2040, the population of the Clearwater Planning Area is projected to increase to just more than 148,000, representing a density of 8.46 persons per acre.¹⁹ At 640 acres per square mile, this represents a density increase of about 122 persons per square mile. Florida TaxWatch is unclear how a small increase in population density (0.19 persons per acre) over the next 15 years justifies an estimated 20 percent increase in electric load within the MEU service territory.

ECONOMIES OF SCALE

Economies of scale are crucial to the provision of reliable electric service at the lowest possible cost to the community. Economies of scale permit larger utility companies to generate and distribute electric service at a lower average cost per customer because they can spread their infrastructure investments over a larger customer base. The more customers a single large

The feasibility study cautions that its assumptions are time-specific, subject to change, and offer no guarantee of cost savings, noting results are likely to differ materially from projections. Florida TaxWatch raises concern that the study assumes an unrealistic "overnight" MEU conversion and a 20% load increase that appears inconsistent with Clearwater's slow projected population growth.

¹⁶ City of Clearwater, "Clearwater Comprehensive Plan 2045," adopted January 2024.

¹⁷ 117,292 persons divided by 14,183 acres (incorporated) = 8.27 persons per acre.

¹⁸ 122,713 persons divided by 14,183 acres (incorporated) = 8.65 persons per acre.

¹⁹ 148,000 persons divided by 17,497 acres (Clearwater Planning Area) = 8.46 persons per acre.

utility serves with that shared infrastructure, the lower the average cost per customer generally becomes. This efficiency suggests that it would cost less for one large utility provider to serve an area, as opposed to multiple competing entities duplicating infrastructure and service.

IOUs face the same resiliency and recovery challenges as their publicly owned counterparts in creating generation and distribution networks capable of withstanding and recovering from more frequent and more intense weather events. IOUs like Duke rely on mutual aid agreements with Regional Mutual Assistance Groups (RMAGs) to mobilize thousands of utility workers and resources from other electric companies during major events. This helps to ensure faster service restoration. Costs and procedures for mutual aid are standard in the industry, which allows for rapid deployment and cost recovery after major events.

Because they are a for-profit entity, IOUs must request approval from state regulators (e.g., Florida Public Service Commission) to pass most of their response and recovery costs to customers to ensure a return for their investors, often through temporary (12-18 months) rate increases. Publicly owned utilities have the benefit of being able to tap into state and federal disaster response and recovery programs to recover their costs, lessening the financial burden on ratepayers.

LARGER GOVERNMENT

The City undertakes this municipalization at a time when local governments are under great scrutiny from the state for unnecessary and wasteful spending. In February 2024, the Governor issued Executive Order 25-44, which established within the Executive Office of the Governor the Department of Government Efficiency (DOGE). The Order directs state agencies and local governments to “identify and eliminate unnecessary spending, maximize efficiency, and improve fiscal stewardship.” The Order authorizes the audit of (state agencies and) local governments for waste and inefficiencies, and to ensure that taxpayer money is spent responsibly. Establishing and staffing the Clearwater MEU is almost certain to invite scrutiny from DOGE.

CONCLUSIONS AND RECOMMENDATIONS

Florida TaxWatch cautions the City of Clearwater not to proceed with the planned acquisition of Duke’s electric distribution assets and the establishment of a municipal electric utility. This caution is based upon our collective belief that, no matter how much the City thinks this effort will cost, or how long this process will take, it is going to cost more and take longer to do. This collective belief is based upon: (1) a heavily qualified feasibility study with too many assumptions and unknowns; (2) a timeframe going forward that does not seem realistic; and (3) a 25-year body of research that is not favorable to or supportive of municipalization.

Florida TaxWatch considers the City’s efforts to municipalize its electric utility service to be a huge financial risk for something that is projected to generate single-digit savings for the first few years of operation. There are some things the private sector does better than the public sector, and the provision of electric power service is one of those things. The challenge facing the City going forward is determining whether the financial risk is worth the potential reward. Florida TaxWatch believes the answer to this challenge is a resounding “no.”

Florida TaxWatch recommends the City of Clearwater and Duke Energy Florida immediately begin negotiating a new franchise agreement — one that represents a “win-win” for the City, Duke Energy Florida, and most importantly, the taxpayers. City residents deserve nothing less.

APPENDIX: MEU CASE STUDIES

ANN ARBOR, MICHIGAN

In 2022, the Ann Arbor City Council commissioned a study to examine the options for meeting the City's goal of powering the community with 100 percent renewable energy by 2030. Since implementation of an MEU by 2030 was not feasible, the City looked at other options. In 2024 voters approved a solar-focused supplemental municipal utility to supplement energy provided by DTE Energy on an "opt-in" basis.

In response, DTE Energy issued its own study to look at the impacts of full municipalization of the electric grid, which concluded that customers in the city could face 30-40 percent rate increases in Year 1. The City planned a second feasibility study to investigate the acquisition of DTE's assets; however, the City Council ultimately did not fund the study. In 2024, voters approved the creation of a Sustainable Energy Utility (SEU) that will be an "opt-in" community-owned utility offering 100 percent renewable energy.²⁰

BOULDER, COLORADO

Driven by a desire for greater renewable energy generation, Boulder, Colorado (2005) initiated the acquisition of Xcel Energy's electric distribution assets. The initial feasibility study estimated the acquisition cost at \$140 million. The Boulder City Council voted in 2010 to end the franchise agreement with Xcel and, in 2011, the voters approved funding to start the municipalization effort.²¹ After nearly a decade of acquisition-related litigation, the initial acquisition costs had escalated, far exceeding the \$213 million cap established by the voters in 2013 as the amount of debt that could be issued for the acquisition. In 2020, with the funds approved by the voters for the litigation with Xcel (\$29 million) running out, Boulder voters voted to reinstate the franchise agreement with Xcel. The settlement preserved Boulder's right to opt out of the franchise agreement and pursue municipalization again if Xcel failed to meet established carbon emissions reduction targets.²²

²⁰ Supra, see footnote 15.

²¹ Michael Elizabeth Sakas, "Boulder Ends Decade Long Pursuit of City-Owned Power Utility," CPR News, November 20, 2020.

²² Supra, see footnote 15.

²³ Supra, see footnote 15.

²⁴ Supra, see footnote 15.

²⁵ Supra, see footnote 12.

CHICAGO, ILLINOIS

The City of Chicago commissioned a feasibility study for municipalizing Commonwealth Edison's (ComEd) distribution assets. The study found that the annual average electricity rate would be up to 43 percent higher than the ComEd rate for the 20 years covered by the study. This is due primarily to the estimated cost (\$3.9 billion) to separate ComEd assets from MEU assets. The City proposed a new 15-year franchise agreement in 2023, which included a franchise fee of \$100 million.

DECORAH, IOWA

In 2018, Decorah, Iowa, a town of fewer than 10,000 residents, held a referendum to establish an MEU. The referendum failed by three votes. In 2025, the voters once again voted on a referendum to establish an MEU. This time, the voters again rejected a proposal to establish an MEU within Alliant Energy's service territory.²³

EL PASO, TEXAS

In 2023, El Paso voters went to the polls to vote on Proposition K which, if approved, would require the City to "employ all available efforts" to municipalize El Paso Electric. More than 80 percent of the voters rejected Proposition K.²⁴

JEFFERSON COUNTY, WASHINGTON

In 2008, the Jefferson County (Washington) Public Utility District No. 1 (JPUD) initiated a municipalization process to acquire the electric distribution assets of Puget Sound Energy (PSE). A preliminary feasibility study estimated that PSE's assets could be acquired at a cost of \$47.2 million. When separation, start-up and legal costs, and working capital and financing expenses were added, the total financing requirements reached \$66 million.²⁵

The study concluded that JPUD could provide service beginning in 2011 at rates that were slightly higher than PSE's rates for the first three years of operation. When low-cost power from Bonneville Power Authority (BPA) became available in Year 4, JPUD rates would decrease appreciably and would be lower in all ten years of the study if the acquisition year was assumed to align more closely with the BPA power supply and if the parties relied on "more realistic" acquisition costs for the PSE assets and different financing assumptions.

JPUD acquired PSE's electric distribution assets in 2013 through a negotiated sale agreement. This was approximately five years after the acquisition was originally approved. The sale price was \$109.3 million, more than twice the projected price in the feasibility study.²⁶ In addition, actual operating costs and resulting electricity rates under JPUD have been higher than projected. Even though JPUD was successful in purchasing power from BPA, its retail electric distribution rates have remained higher than the rates charged by PSE.

LONG ISLAND, NEW YORK

In 1998, the Long Island Power Authority (LIPA) issued nearly \$7 billion in bonds to finance the acquisition of the transmission and distribution system of the former Long Island Lighting Company (LILCO) and to refinance portions of its debt. This included expenses associated with the Shoreham Nuclear Power Plant, which was completed but never placed into commercial operation. By 2010, LIPA's debt costs became onerous, requiring several financial restructuring efforts. In 2014, LIPA reported total debt of \$7.6 billion (up 11 percent over 2010), projected to increase to \$8 billion by 2018. On top of its substantial debt load, costs from natural disasters (excluding Hurricane Sandy) between 2006 and 2012 exceeded annual budgets by an average of 239 percent. These increased costs were passed along to the ratepayers, resulting in higher electric rates.

²⁶ Supra, see footnote 12.

²⁷ Supra, see footnote 12.

²⁸ Supra, see footnote 15.

²⁹ Supra, see footnote 15.

A report by the New York State Comptroller found that LIPA's average residential retail rate in 2013 was 22 percent higher than the median residential retail rate for New York, and 78 percent above the national median. LIPA's commercial retail prices were even higher, at 92 percent above the national median. In 2014, after significant cost escalations, asset mismanagement, and reliability issues, LIPA was forced to select a local IOU to manage its electric system. Since choosing Public Service Enterprise Group (PSEG), customer service has improved significantly, and PSEG has also made record-level improvements on the system, including rebuilding 700 miles of distribution lines to improve reliability.²⁷

MAINE

The state of Maine has two utility providers (Central Maine Power and Versant) that supply 97 percent of the state's electric power. Complaints about high rates and poor customer service prompted consideration of municipalization. In 2019, and again in 2021, legislators rejected legislation to purchase the providers' assets and create a public utility. In 2023, when asked if they would like to create a new public power company to acquire and operate existing transmission and distribution, 70 percent of the voters voted "no."²⁸

PUEBLO, COLORADO

A 2020 ballot initiative in Pueblo, Colorado proposed the establishment of an MEU and the end to the franchise agreement with Black Hills Energy. More than 75 percent of those voting rejected municipalization in support of the current agreement (which runs through 2030). In October 2023, the City Council allocated \$150,000 for a feasibility study in response to continued dissatisfaction with electricity costs. In April 2025, the study concluded that the acquisition of Black Hills Energy assets within the city limits "is not currently a feasible option," citing changes in power market conditions, high acquisition costs, and a lack of scale that would make an MEU financially viable. In May 2025, Pueblo voters returned to the polls to decide the issue, and 78 percent of those voting rejected Pueblo's municipalization effort.²⁹

SAN DIEGO, CALIFORNIA

In 2022, the City of San Diego authorized a feasibility study that estimated the cost of acquiring San Diego Gas & Electric (SDG&E) assets at \$2 billion. The study identified the need for more thorough asset and severance valuation among the other financial analyses. SDG&E's analysis estimated the cost to take over their distribution assets to be between \$7.4 billion and \$9.3 billion. When franchise agreement fees and property tax revenues are included, the cost of municipalization are likely to exceed \$11 billion.³⁰

SAN JOSE, CALIFORNIA

In October 2023, the San Jose (California) City Council voted to create an MEU to provide power to new customers in select areas of the City. In early 2025, San Jose abandoned its municipalization plan because it did not have the resources needed to launch and operate its own utility. Under a new agreement with Pacific Gas & Electric (PG&E), PG&E guaranteed power delivery for new data centers and agreed to new performance milestones and timelines. As long as PG&E continues to fulfill the terms and conditions in the new agreement, San Jose will not pursue municipalization.³¹

TUCSON, ARIZONA

The City of Tucson, Arizona commissioned a study to analyze the feasibility of municipalization. The April 2025 draft study concluded that forming a public utility “entails significant risks” and would necessitate “substantial, additional due diligence.” The local IOU (Tucson Electric Power) found the city study to be based on flawed assumptions, including an unrealistic start date (2028) and cost estimates that neglect separation of infrastructure, workforce costs, litigation costs, and grid maintenance.³²

WINTER PARK, FLORIDA

The most recent significant city to successfully municipalize its electric utility was Winter Park, Florida (2005). After a 2003 referendum in which 69 percent of the voters voted in favor of establishing an MEU, the City began an arbitration process (as opposed to litigation) to acquire electric assets from Progress Energy (now Duke Energy Florida). The original acquisition cost — which did not include stranded costs and going concern value — was estimated at approximately \$16 million. After five years of arbitration, the final acquisition cost was approximately \$42 million, which included \$10.7 million for stranded costs and \$12 million for going concern value.³³

Although Winter Park has finally achieved local control, improved service reliability, and more favorable (competitive) rates, the city experienced considerable challenges in the early stages of MEU ownership and operation. For example, Fitch Ratings placed Winter Park on “credit watch negative,” as a result of declining liquidity and a debt service ratio well below 1.0; utility rates that were higher than those of the former utility; and revenue deficiencies that required the city to draw down its cash position.³⁴ After 20 years of operation, the MEU is providing average costs for residential service that are less than the current costs for residential service offered by the former utility.³⁵

30 Supra, see footnote 15.

31 Supra, see footnote 15.

32 Supra, see footnote 15.

33 Toby Bishop, Ann Bulkley, and Chris Wall, “Electric Utility Municipalization: Key Statistics and Risk Considerations,” January 2025.

34 Ibid.

35 City of Winter Park, “Annual Comprehensive Financial Report,” March 29, 2024.

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the taxpayers of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

Florida TaxWatch is supported by voluntary, tax-deductible donations and private grants. Donations provide a solid, lasting foundation that has enabled Florida TaxWatch to bring about a more effective, responsive government that is accountable to the citizens it serves since 1979.

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All Florida TaxWatch research is done under the direction of Lt. Governor Jeff Kottkamp, President, CEO, Publisher & Editor.

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