CITY OF CLEARWATER
PRELIMINARY MUNICIPALIZATION VALUATION BRIEFING

PREPARED FOR:
DUKE ENERGY FLORIDA

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CONCENTRIC ENERGY ADVISORS

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OVERVIEW

Concentric Energy Advisors, Inc. ("Concentric") understands that certain parties have proposed to municipalize the electric distribution assets of Duke Energy Florida ("DEF" or the "Company") within the City of Clearwater ("City") and create a publicly owned municipal utility. DEF retained Concentric to develop a preliminary valuation of the associated DEF assets and total cost of municipalization.

Given the uncertainty surrounding a potential transaction date, the analysis included two scenarios: (1) January 1, 2029, and (2) January 1, 2034, thus all dollar amounts herein are in 2029 and 2034 dollars, respectively.[1]

The separation of an electric distribution system is operationally and financially complex. This high-level valuation includes five major categories of costs[2]:

- Value of the Assets - the fair value of the assets to be acquired from DEF.
- Separation & Reintegration Costs – the costs associated with separating the assets from DEF's system and reintegrating to form a new municipal utility.
- Stranded Generation Costs – the loss of generation revenues associated with the City of Clearwater's current electricity load.
- Startup Costs – the cost to purchase new facilities, staff, and finance the new utility.
- Transaction Costs – the costs to complete the municipalization process, including debt issuance costs and legal, engineering, and consulting fees.

Concentric preliminarily estimates that the total direct costs of a municipalization to the City of Clearwater may be between $1.13-$1.25 billion with a start date of 2029 (in 2029 dollars) and $1.38-$1.52 billion with a start date of 2034 (in 2034 dollars).

Concentric developed preliminary estimates of the total cost for each category, with a range of estimates depending on municipalization start date, given the uncertainty associated with condemnation proceedings and other factors as set forth herein. The estimates are based on a combination of Company data, publicly available or subscription data on market values, interest rate and inflation forecasts, and the application of cost estimates from this and other proposed

[1] See Appendix: Key Assumptions for full list of assumptions used in the analysis.

[2] Note that these are high-level, preliminary valuation estimates based on the limited scope of this study, as set forth in more detail here. However, a municipalization process would require, among other things, a condemnation hearing, additional feasibility studies, engineering and consulting studies, and the assessment of foregone revenues (e.g., franchise fees and property taxes currently paid by Duke Energy Florida to the City of Clearwater), which may result in a higher valuation. In addition, this assessment does not include ongoing municipalization costs or potential adverse impacts to existing Duke Energy Florida customers that remain with the utility after municipalization.

municipalizations. Concentric notes that all costs are preliminary, and are provided as a range expressing some, but not all, of the uncertainty around the estimate. If requested by DEF, a more detailed Feasibility Study analysis of the value of the assets, separation and reintegration costs, stranded generation, startup costs, transaction costs, and ongoing municipal electric utility costs would be required. In addition, a detailed Feasibility Study analysis would include a forecasted rate comparison between Duke Energy Florida and a Clearwater municipal electric utility. The preliminary estimates also do not include several cost components yet to be considered, including but not limited to additional stranded assets (in addition to stranded generation), unrecovered regulatory assets, potential storm damage cross-subsidies, debt refinancing, ongoing municipalization costs, foregone revenues (e.g., franchise fees and property taxes paid by DEF to the City), and additional capital investments (e.g., self-optimizing grid costs and potential adverse impacts to existing DEF customers remaining on the system). In addition, these costs are expected to change over time due to a number of factors, including but not limited to the impacts of inflation on construction and purchasing costs, shifts in interest rates and financial markets, and the Company's ongoing investments in its system. To reflect cost changes over time and the uncertainty associated with a municipalization start date, the estimates include municipalization start dates of 2029 and 2034.

PRELIMINARY VALUATION METHODOLOGY

Preliminary Municipalization Cost Estimate

2029: $1.13–$1.25 billion 2034: $1.38–$1.52 billion

Municipalization Start Date	**2029**	**2034**
Value of Assets	$477–$540M	$614–$695M
Separation & Reintegration Costs	$305–$342M	$340–$382M
Stranded Generation	$230M	$257M
Startup Costs	$108–$122M	$140–$158M
Transaction Costs	$14M	$31M
Preliminary High-Level Valuation Costs	**$1.13–$1.25B**	**$1.38–$1.52B**

Note: Municipalization cost estimates for 2029 start date are in 2029 dollars and costs for 2034 start date are in 2034 dollars. Values may not sum to total due to rounding.

Valuation of Assets

As set forth in more detail below, the valuation of assets is based on "fair market value" concepts and is the cost associated with purchasing the physical assets, including substations, transformers, and other equipment, from DEF. As a basis for the preliminary valuation, these assets were limited to those within the bounds of the City of Clearwater. Concentric approached this valuation using "fair market value" principles, designed to estimate what a third-party buyer would pay for these assets in a competitive arms-length market solicitation. Concentric routinely works with buyers and sellers of utility assets and employs this expertise to arrive at high-level preliminary estimates.

Concentric estimated the value of assets using the following methodology:

$$Value\ of\ Assets = (Current\ Net\ Book\ Value + Net\ Growth\ in\ NBV\ through\ Transaction\ Date) * Market\ Based\ Transaction\ Multiple$$

A market-based transaction multiple is necessary to capture the fair market value of the Company's assets that would be expected to trade at a value in excess of net book value ("NBV"). The multiple was developed based on two methodologies:

1. The median ratio of the total enterprise value of 44 publicly traded U.S. gas and electric utilities, as defined by Value Line, divided by their net property, plant, and equipment ("PP&E"), averaged quarterly over the last ten years, yielding a ratio of 1.34.
2. The average ratio of the transaction value of selected comparable utility acquisitions in the U.S. over the last ten years, divided by the net PP&E at the time of acquisition, yielding a ratio of 1.52.

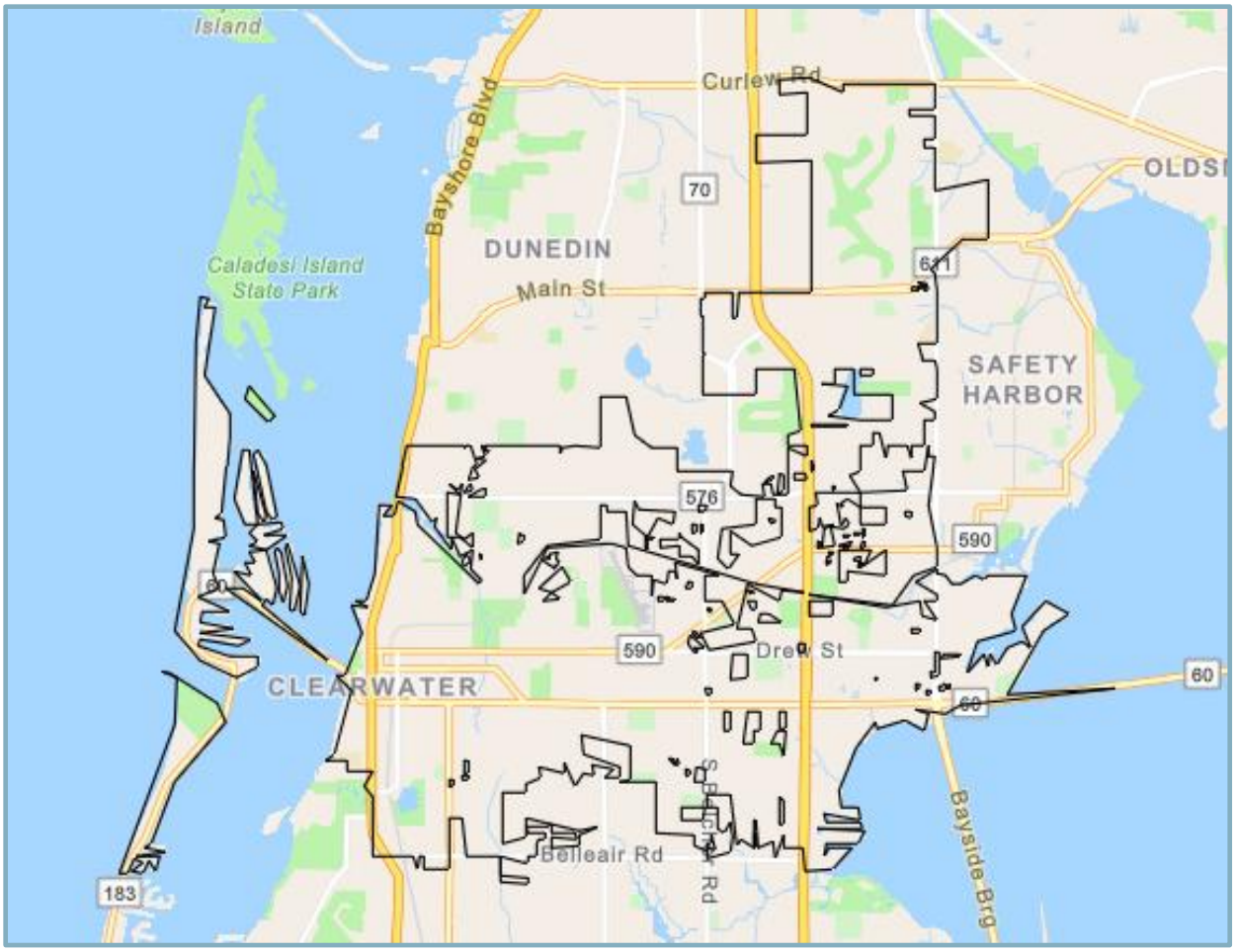
This approach is appropriate for a preliminary valuation based on the limited information known at this time. In the event of a more detailed full Feasibility Study, additional approaches would need to be considered.

Concentric estimates that the asset valuation is $477-$540 million, assuming a start date of 2029, or $614-$695 million with a start date of 2034.

Separation & Reintegration Costs

Separation and reintegration costs are those associated with separating the assets from DEF's system and reintegrating them into a new municipal utility. The electric transmission and distribution system is an integrated system with complex interconnections, enabling the reliable and efficient flow of electricity to meet the demands of the utility's customers. Separating an electrical system into

two distinct systems will be particularly difficult in Clearwater due to the city's complex boundaries, enclaves of unincorporated land within the city, and the island of Clearwater Beach.[3]



The separation and reintegration of the electric systems requires planning, engineering, and implementation. The complexity depends on various factors, such as the size and type of the existing system, the reasons for separation, safety considerations, and the desired functionality of the new systems. Separation of the transmission and distribution system, and the distribution system along the City of Clearwater boundaries, is estimated by the Company to require[4]:

- Reconfiguration costs on the DEF system of 84.4 miles of primary feeders and one breaker.

[3] Economic Development | City of Clearwater, FL GIS Map

[4] Note that this high-level estimate does not include additional cost issues, including but not limited to separation costs associated with DEF's self-optimizing grid, costs for additional subaqueous cables and other equipment to continue service to Caladesi Island through Clearwater Beach, costs to separate 300 secondary laterals crossing the City, separation of a distribution feeder to the Morton Plant Hospital, which feeds the hospital through the City of Belleair, and advanced metering infrastructure (AMI) communication grid costs.

- Reconfiguration costs for the City of Clearwater, including 18.7 miles of primary feeders and three substations within the City limits.
- Costs for subaqueous cables, including 0.5 miles on the DEF system and 3.1 miles in the City of Clearwater.

Based on this scope of work, the preliminary estimates of the cost to accomplish separation are in the range of $305 million to $382 million, based on the municipalization start date and whether the cost of subaqueous cables are included as separation and reintegration costs for the City of Clearwater.

Cost Estimates[5]	2029 Start Date (2029$)		2034 Start Date (2034$)	
	Low	High	Low	High
DEF Separation & Reintegration Costs	$108 M	$108 M	$120 M	$120 M
Clearwater Separation & Reintegration Costs	$197 M	$235 M	$219 M	$261 M
Separation & Reintegration Costs Subtotal	*$305 M*	*$342 M*	*$340 M*	*$382 M*

Under this proposal, the City would acquire DEF's distribution assets within the City boundaries. This will require separation between DEF's high voltage transmission system (138 kV or 69 kV) and DEF's medium voltage distribution system (12 kV or 4.16 kV) at the transformers at each substation inside the City boundaries. DEF will maintain transmission assets within the City boundaries.

Stranded Generation

An additional cost category is stranded generation, which is the costs DEF has incurred to secure generation to supply the City of Clearwater with electricity. The Federal Energy Regulatory Commission ("FERC") Order 888 defines stranded generation costs as:

Stranded Cost Obligation = Revenue Stream Estimate – Competitive Market Value

The total stranded generation costs are estimated at $230 million in 2029, based on stranded generation costs between 2030 and 2039, and $257 million in 2034, based on stranded generation costs between 2035-2044.[6]

[5] Note: Values may not sum to total due to rounding.

[6] Assumptions:
City of Clearwater peak demand of 336 MW (based on 3.56% of DEF's load ratio multiplied by the system peak demand of 9,455 MW) plus a 20% reserve margin, or 404 MW of capacity.
10-Year study period.
26% of retail revenues associated with generation capacity.
Market value based on PJM's most recent capacity auction of $270/MW-day.
Escalation estimated at 3.00% annually for 2024-2029 period and 2.20% for 2030-2034 period.

Cost Estimates	2029 Start Date (2029$)	2034 Start Date (2034$)
Stranded Generation Costs Subtotal	*$230M*	*$257M*

Startup and Transaction Costs

Startup costs include those associated with starting a new municipal electric utility. These include, but are not limited to:

- Facilities (e.g., operations and maintenance yard, customer service center, control center);
- Equipment inventory;
- Fleet vehicles;
- Staffing;
- IT Systems (e.g., billing, general IT);
- Operations systems;
- Capital reserve fund; and
- Cash working capital.

Transaction costs are required to complete the municipalization process. Costs include legal fees to execute a transaction through a condemnation proceeding, detailed engineering and consulting fees, and underwriting and debt issuance costs.

Concentric preliminarily estimates startup and transaction costs will range from $122–$137 million under a 2029 transaction date to $171–$191 million under a 2034 start date.

Cost Estimates[7]	2029 Start Date (2029$)		2034 Start Date (2034$)	
	Low	High	Low	High
Startup Costs	$108 M	$122 M	$140 M	$158 M
Transaction Costs	$14 M	$15 M	$31 M	$33 M
Startup and Transaction Costs Subtotal	*$122 M*	*$137 M*	*$171 M*	*$191 M*

7 Note: Values may not sum to total due to rounding.

FEASIBILITY STUDY

The analysis herein presented in this Briefing provides *preliminary estimates* that may change with time and/or updates to methodologies, as well as more in-depth engineering and accounting analysis of DEF's assets, among other factors and issues discussed herein. A more comprehensive Feasibility Study would provide a more detailed analysis of asset value, separation and reintegration costs, startup costs, and foregone revenues, as well as a rate comparison between DEF's expected rates—if the City were to remain within DEF's service territory—as compared to an estimate of the City's municipal rates after acquisition of assets by the City.

In Florida, should municipalization proceed, the valuation of utility property in an eminent domain proceeding would likely be litigated before the Florida Public Service Commission ("PSC") or state courts to ensure just compensation and compliance with other requirements of Florida law. Florida Statutes governing the power of eminent domain related to electric utility property have certain requirements, as follows:

> *Fla. Stat. § 73.0715: Valuation of electric utility property.—When any person having the right to exercise the power of eminent domain seeks the appropriation of property used for the generation, transmission, or distribution of electric energy, the jury shall determine solely the amount of compensation to be paid. Such compensation shall include the* ***reproduction cost*** *of the property 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.*

As mentioned, for our preliminary valuation in our study herein, Concentric relied on a market-based, "**sales comparison approach**" using "fair market value" principles, designed to estimate what an arms-length third-party buyer would pay for these assets in a competitive market solicitation.

A full Feasibility Study would include a more robust analysis, including a Reproduction Cost New Less Depreciation ("RCNLD") analysis in compliance with Florida statutes governing eminent domain. The RCNLD is a valuation method used to determine the current value of a property by estimating the cost to construct an exact replica at today's prices, then subtracting depreciation due to physical wear, functional obsolescence, and external factors. RCNLD involves detailed review of historical capital accounting data and estimation of new equipment costs.

A full Feasibility Study would also include a rate forecast analysis between a municipal electric utility's rates and DEF's rates to determine whether customers would fare better under a municipal electric utility or on DEF's system. This analysis would consider additional elements, including but not limited to:

- Reproduction Cost New Less Deprecation (RCNLD) analysis, as described above.

- Comparison of ongoing municipalization costs, such as power supply, operations and maintenance, debt service, foregone fees to the City (e.g., franchise fees and property taxes the City would no longer receive under municipalization), and customer programs.
- Detailed engineering analysis of additional separation costs, including:
    - DEF's self-optimizing grid;
    - Additional subaqueous cables and other equipment to continue service to Caladesi Island through Clearwater Beach;
    - Separation of 300 secondary laterals crossing City boundaries;
    - Replacement of a second distribution feeder to the Morton Plant Hospital, which currently runs through the City of Belleair; and
    - Advanced metering infrastructure (AMI) communication grid costs
- Potential stranded assets (in addition to stranded generation)
- Unrecovered balancing accounts, potential storm damage cross-subsidies
- Debt financing
- Potential additional capital investments the City would need to make to provide a comparable level of service, such as:
    - Self-optimizing grid costs;
    - AMI communication grid costs; and
    - Operations center costs.
- The fair market value of land acquired and the value associated with acquiring bundled easements.
- Potential annexation costs and legal cost implications

CONCLUSIONS

Creating a new municipal utility in the City of Clearwater is operationally and financially complex. Concentric estimates the total preliminary costs of municipalization to the City of Clearwater to be $1.13–$1.52 billion..

The estimates in this Briefing focus on the immediate purchase price and direct expenses associated with acquiring the distribution assets within the City of Clearwater. However, a full Feasibility Study would review valuation costs in more detail and potentially increase municipalization costs.

APPENDIX: KEY ASSUMPTIONS

- The net book value for DEF's distribution assets in Clearwater was based on the current inventory count of assets in the City and the Company's most recent capital asset accounting records.
- Capital investments made by the Company within the City between 2025 and the date of municipalization was based on the ten-year average of DEF's total distribution plant additions, prorated for the number of customers in Clearwater.
- The market-based transaction multiple is based on comparable utility sales from seven transactions between 2015 through 2024 and includes a sale in the Tampa Bay area which had a multiplier of 1.52.
- The effective transaction date was assumed to be January 1, 2029, or January 1, 2034. Total costs are expressed in 2029 or 2034 dollars, depending on the transaction date.
- The portion of electric DEF distribution assets within the city bounds of Clearwater were used exclusively.
- Escalation estimated at 3.00% annually for 2024–2029 period and 2.20% for 2030–2034 period.
- Stranded generation assumptions:
    - City of Clearwater peak demand of 336 MW (based on 3.56% of DEF's load ratio multiplied by the system peak demand of 9,455 MW) plus a 20% reserve margin, or 404 MW of capacity;
    - 10-Year study period;
    - 26% of retail revenues come from generation capacity;
    - Market value based on PJM's most recent capacity auction of $270/MW-day; and
    - Escalation estimated at 3.00% annually for 2024–2029 period and 2.20% for 2030–2034 period.
- Startup costs include:
    - Initial capital investment at 3.27% replacement capital annual rate for 4 years multiplied by the total asset value;
    - Inventory costs at 3.00% of total asset value;
    - Operations startup costs at 3.00% of total asset value; and
    - Initial debt reserve at 3.00% of total borrowing costs.
- Transaction costs include:
    - Legal, engineering, and consulting fees estimated at $5 million in the low case and $20 million in the high case; and
    - Flotation costs estimated at 1.50% of borrowing costs.

ABOUT CONCENTRIC

Concentric Energy Advisors was founded in 2002 by a small group of executive-level consultants committed to establishing a mid-sized energy consulting firm with capabilities and a reputation unsurpassed by any firm in North America. Concentric has approximately seventy employees and is headquartered in Marlborough, Massachusetts with an office in Washington, DC. Our wholly owned Canadian subsidiary, **Concentric Advisors, ULC** is headquartered in Calgary, Alberta, Canada. Our energy industry experts have held positions with utility companies, regulatory agencies, integrated energy companies, regional transmission organizations, retail marketing companies, and utility management consulting firms.

Concentric provides a comprehensive and integrated suite of services to every segment of the energy sector, including strategic, financial, regulatory, planning, and ratemaking services. We have evolved with the industry and are actively supporting utilities and other stakeholders as they navigate the energy transition in response to clean energy policies that are being implemented throughout North America.

Our experts stay abreast of the latest developments in regulatory policy and routinely testify before Canadian and U.S. regulators on the above topics. We have over 20 experts who have appeared in regulatory proceedings across North America, addressing policy and challenging analytical topics, backed up by a team of consultants who are experienced in all aspects of developing the financial, economic, and technical data filed as part of regulatory proceedings. Many of our assignments contain valuation and economic assessments and conclude with expert reports or written testimony supporting our findings.