

CITY OF ST. PETERSBURG FL PRELIMINARY MUNICIPALIZATION COST ESTIMATE

PREPARED FOR:
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PRELIMINARY ST. PETERSBURG FL MUNICIPALIZATION COST ESTIMATE

EXECUTIVE SUMMARY

Concentric Energy Advisors (“Concentric”) was retained by Duke Energy Florida (“DEF” or the “Company”) to develop a preliminary planning-level estimate of the costs associated with municipalization of DEF’s electric system within the City of St. Petersburg (“City”).

To put our cost estimate into perspective, the current electric distribution rates paid by the Company’s St. Petersburg customers are generally based on an allocated share of net book value (“NBV”) of approximately \$693 million. However, municipalization would require the City to acquire, separate, reconstruct, finance, and independently operate portions of the DEF distribution system. Due to the complexity of separating the existing transmission and distribution systems, Concentric preliminarily estimates that municipalization could require 7 to 10 years to complete, increasing estimated costs to approximately \$2.7 billion to \$3.8 billion by 2033 and \$2.9 billion to \$4.1 billion by 2036.

Preliminary review indicates that separation of the systems would require substantial new utility infrastructure, including:

- approximately 150 miles of new distribution lines;
- approximately 16 miles of new transmission lines;
- four new substations;
- two new subaqueous transmission crossings; and
- additional transmission and distribution reinforcements in the Gateway area and along the Pasadena/Gulfport/St. Pete Beach/Treasure Island portions of the system.

Preliminary Municipalization Cost Estimate

St. Petersburg 2025 Load Ratio Share of NBV is \$693M

Municipalization Start Date	2033	2036
Value of Assets	\$1,251–\$1,507M	\$1,346–\$1,645M
Separation & Reintegration Costs	\$1,176–\$1,764M	\$1,255–\$1,883M
Startup Costs	\$185–\$309M	\$198–\$330M
Transaction Costs	\$32–\$53M	\$34–\$57M
Initial Reserves	\$103–\$172M	\$110–\$183M
Preliminary Total Cost Estimate	\$2.75–\$3.80B	\$2.94–\$4.10B

Note: Municipalization cost estimates for 2033 start date are in 2033 dollars and costs for 2036 start date are in 2036 dollars. Values may not sum to total due to rounding. Most cost categories assume 3% escalation for 2026 to 2028 and 2.2% there after.



The total cost estimates also include the upfront costs necessary to start a new municipal utility, transaction costs including legal fees, and initial cash reserves necessary to maintain financial stability for the municipal utility.

Valuation of Assets

The NBV of the City's distribution system is based on a detailed inventory of assets including street lights, poles, overhead and underground conductors, transformers, services, and meters. The distribution system consists of 3,342 miles of distribution lines, or approximately 108 ft. per customer, over 74,000 distribution poles, over 42,000 street lights, approximately 20,700 transformers, and almost 163,000 meters. The NBV also includes the depreciated cost of ten substations within the City boundaries but excludes two substations that only serve the transmission system, and three others which would be retained by the Company in its proposed separation plan which is discussed in more detail below.

Concentric approached the preliminary valuation using "fair market value" principles designed to estimate what a third-party buyer would reasonably pay for these assets in a competitive arms-length transaction. Concentric routinely works with buyers and sellers of utility assets and applies this experience in developing planning-level valuation estimates.

The preliminary valuation was developed using the following general framework:

Value of Assets

$$\begin{aligned} &= (\text{Current Net Book Value} + \text{Net Growth in NBV through Transaction Date}) \\ &\quad * \text{Market Based Transaction Multiple} \end{aligned}$$

Concentric estimated the value of assets using two valuation methodologies:

Trading Multiples Approach – This approach evaluates the relationship between the enterprise value of publicly traded electric and gas utilities and their associated net property, plant, and equipment ("PP&E"). Concentric updated this analysis through the end of 2025 using a group of publicly traded U.S. electric and gas utilities. The analysis yielded a valuation ratio of approximately 1.34 times net book value.

Comparable Transactions Approach – This approach evaluates transaction value to net PP&E multiples associated with recent utility mergers and acquisitions. Concentric updated this analysis to include recently announced utility transactions, including the proposed NextEra Energy acquisition of Dominion Energy, which reflected a transaction value to net book ratio of approximately 1.57. Based on the broader set of comparable utility transactions, the analysis yielded a valuation ratio of approximately 1.52 times net book value.

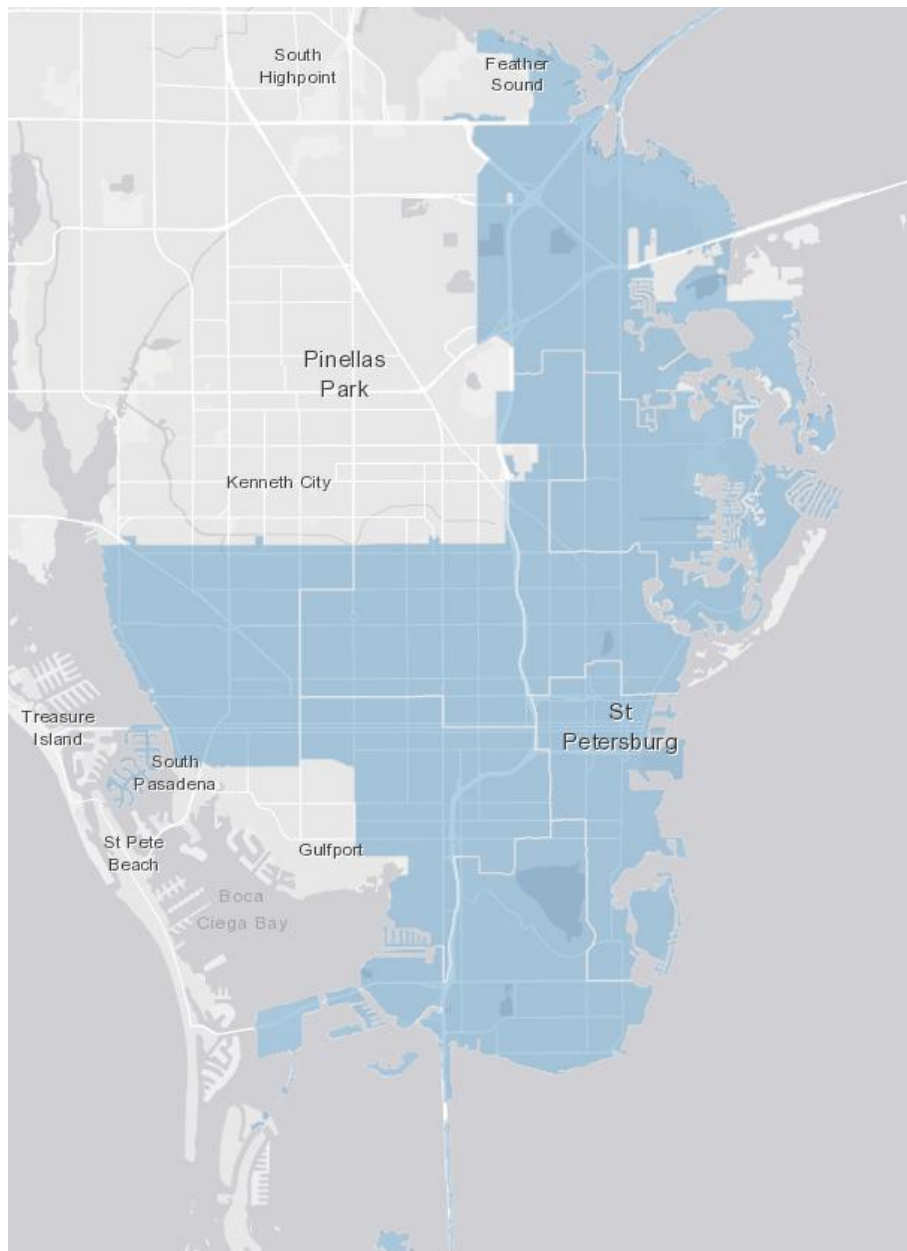


Based on these preliminary valuation methodologies, Concentric currently estimates the fair market value of the City's electric distribution assets as follows:

Preliminary Asset Valuation Estimate				
	Trading Multiples		Comparable Transactions	
Municipalization Date	2033	2036	2033	2036
NBV	\$935 M	\$1,006 M	\$994M	\$1,086 M
Market Multiple	<u>x 1.34</u>	<u>x 1.34</u>	<u>x 1.52</u>	<u>x 1.52</u>
Preliminary Asset Value	\$1,251 M	\$1,346 M	\$1,507 M	\$1,645 M
<i>Notes: Net book values reflect assumptions regarding on-going capital investments and depreciation. The Comparable Transactions scenario reflects higher on-going capital investment assumption.</i>				

Separation & Reintegration Costs

Separation and reintegration costs are those associated with separating the City's electric distribution assets from the existing DEF integrated transmission and distribution system and reintegrating those assets into a newly formed municipal electric utility. The electric transmission and distribution system serving St. Petersburg is highly integrated with surrounding municipalities and neighboring portions of Pinellas County, enabling the reliable and efficient flow of electricity to customers throughout the region.



Separating the existing system into two independently operated systems would require substantial planning, engineering, transmission modifications, distribution reconfiguration, new substations, and reintegration infrastructure. Preliminary review indicates that separation in St. Petersburg is substantially more complex than many prior municipalization proposals. Preliminary engineering review indicates that separation of the systems may require:

¹ [St. Petersburg, FL Geohub](https://geohubbcsp.opendata.arcgis.com/datasets/61725cc447ae4c479c76954ec82b1762_0/explore?location=27.786028%2C-82.669719%2C12)
https://geohubbcsp.opendata.arcgis.com/datasets/61725cc447ae4c479c76954ec82b1762_0/explore?location=27.786028%2C-82.669719%2C12



- approximately 150 miles of new distribution facilities;
- approximately 16 miles of new transmission facilities;
- four new substations;
- two new subaqueous crossings;
- significant underground duct bank infrastructure;
- transmission loop reinforcements;
- feeder tie-ins and backbone reconfiguration; and
- modifications to maintain service reliability to surrounding DEF customers and critical facilities.

The most significant areas of complexity identified during preliminary review include:

- Bayway / Maximo – rebuild of Bayway substation, transmission looping, beach-area reliability, and subaqueous crossings;
- Pasadena / Gulfport – new gas insulated substation (“GIS”), large underground duct banks, and Treasure Island/St. Pete Beach service separation;
- Kenneth City / Disston / 32nd Street – new GIS substation and extensive feeder tie-ins; and
- Gateway / Northeast / 32nd Street – new GIS substation, transmission reinforcements, and major unknown infrastructure requirements in the Gateway area.

Preliminary review also indicates that municipalization may require the City and DEF to reconstruct portions of the existing system to maintain service reliability to neighboring municipalities, including St. Pete Beach, Treasure Island, Gulfport, Tierra Verde, and surrounding portions of Pinellas County.

The separation plan is based on DEF retaining three substations that are within the City limits but are primarily used to serve customers outside the City. The Company identified this approach as being the lowest cost way to achieve the system separation.

Based on preliminary engineering assumptions and planning-level estimates provided by DEF, Concentric currently estimates separation and reintegration costs as follows:

Separation & Reintegration Cost Estimate		
Municipalization Date	2033	2036
Separation & Reintegration	\$1,176-\$1,764M	\$1,255-\$1,883M



Startup Costs, Transaction Costs, & Initial Reserves

Startup costs are those associated with creating and operating a new municipal electric utility independent from DEF. Preliminary review indicates that startup costs for the City may be substantial due to the need to establish standalone utility operations, customer systems, operational technology systems, and organizational infrastructure independent from DEF.

Startup cost categories currently include:

- utility operations and control center facilities;
- structures, transportation, and operational equipment;
- information technology (“IT”) and cybersecurity systems;
- outage management, communications, and operational systems;
- materials and spare-parts inventory;
- staffing, training, and labor transition costs;
- fleet vehicles; and
- other infrastructure required to support a standalone municipal electric utility.

Preliminary review indicates the City would likely require standalone customer billing systems, outage management systems (“OMS”), supervisory control and data acquisition (“SCADA”) systems, communications infrastructure, cybersecurity systems, geographic information systems (“GIS”), and other utility operational technologies necessary to support safe and reliable electric utility operations.

Concentric developed preliminary startup cost estimates using a combination of utility-specific information, benchmark information from prior municipalization studies, Duke Energy Florida operational data, customer-based scaling metrics, engineering assumptions, and professional judgment regarding the operational requirements of a standalone municipal electric utility.

Transaction costs are associated with completing the municipalization process and financing the acquisition. These costs include legal fees and condemnation proceedings, engineering and consulting services, financial advisory services, underwriting and debt issuance costs, bond counsel and disclosure counsel, rating agency costs, and implementation support services. Preliminary transaction cost estimates were developed using benchmark information from prior municipalization studies, including the City of Boulder municipalization effort and other utility acquisition transactions.

Initial reserves represent the financial reserves and liquidity required to support startup operations and financing of a newly formed municipal electric utility. Preliminary reserve assumptions currently



include a Debt Service Reserve Fund, Working Capital Reserve, and Rate Stabilization Reserve. Concentric developed these reserve estimates using methodologies identified in prior municipalization studies, including reserve assumptions utilized in the Clearwater municipalization analysis.

Based on the preliminary planning-level assumptions currently under review, Concentric estimates startup costs, transaction costs, and initial reserve requirements as follows:

Municipal Utility Formation Costs		
Startup Costs	\$185-\$309M	\$198-\$330M
Transaction Costs	\$32-\$53M	\$34-\$57M
Initial Reserves	\$103-\$172M	\$110-\$183M

Conclusion

Creating a new municipal electric utility in the City would be operationally, financially, legally, and organizationally complex. The electric transmission and distribution infrastructure serving St. Petersburg is highly integrated with surrounding municipalities and neighboring portions of Pinellas County, and preliminary review indicates that substantial transmission, distribution, substation, and operational reintegration infrastructure would likely be required to separate the systems while maintaining reliable electric service to both City customers and surrounding DEF customers.

As discussed herein, preliminary review indicates that municipalization may require substantial new utility infrastructure, including approximately 150 miles of new distribution facilities, approximately 16 miles of new transmission facilities, four new substations, subaqueous crossings, transmission loop reinforcements, and extensive underground distribution and duct bank infrastructure. Significant operational and engineering complexity was also identified in the Bayway/Maximo, Pasadena/Gulfport, Kenneth City, and Gateway portions of the system.

Preliminary review also indicates that municipalization could impact the operational capabilities and reliability benefits associated with DEF's self-optimizing grid ("SOG") infrastructure. DEF has invested substantial capital in advanced grid automation technologies, communications systems, feeder interconnections, and operational technologies designed to improve outage response, fault isolation, service restoration, resiliency, and overall system reliability. Municipalization would sever many of the feeder and substation interconnections that currently support these capabilities. While portions of the existing SOG infrastructure may continue to function after separation, additional investment may ultimately be required to replicate comparable operational and reliability capabilities within a standalone municipal utility. The potential cost associated with replicating these



advanced operational and automation systems has not been specifically quantified or included in Concentric's preliminary estimates.

In addition to the acquisition and separation of distribution assets, municipalization could also result in substantial stranded generation and power supply costs if the City elects to pursue alternative generation supply arrangements independent from DEF. Preliminary review indicates that stranded generation and related power supply costs could potentially range from approximately \$300 million to \$550 million depending on the final structure of the transaction, future generation supply arrangements, regulatory treatment, and the timing of any transition away from DEF generation resources.

Based on the preliminary planning-level assumptions currently under review, Concentric estimates that total municipalization-related costs could range from approximately **\$2.7 billion to \$4.1 billion** depending on the final transaction structure, timing, engineering requirements, financing assumptions, operational requirements, and future system reintegration needs. The estimates in this Briefing focus on the immediate purchase price and direct expenses associated with acquiring, separating, financing, and operating the electric system within the City of St. Petersburg. However, a more detailed Feasibility Study could identify additional operational, engineering, reliability, and financial requirements that may further increase municipalization-related costs.