

LCEC on Marco Island Informational Presentation

June 12, 2008



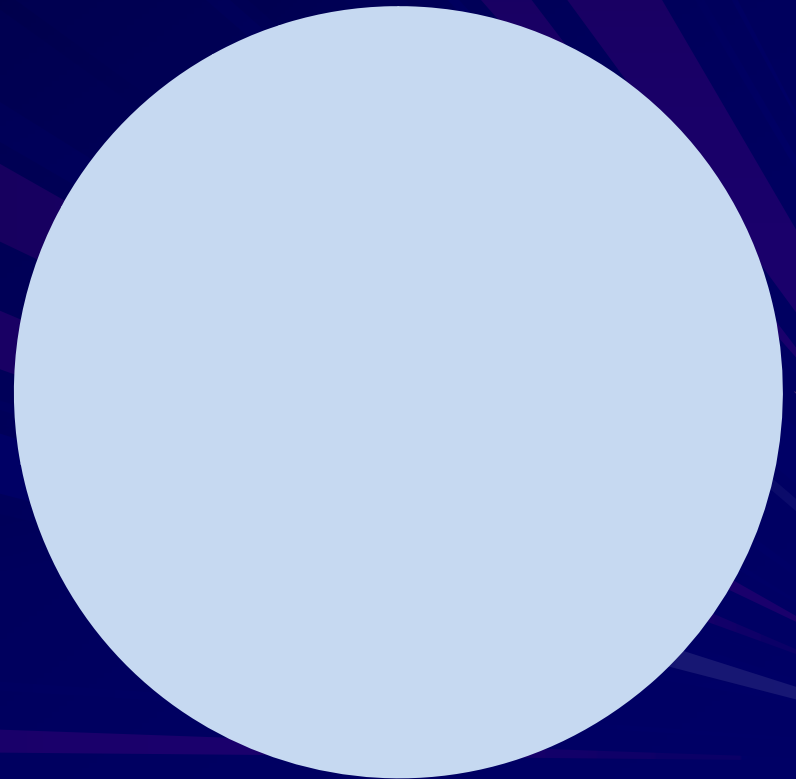
LCEC is an Electric Distribution Cooperative

- LCEC is a not-for-profit entity: revenues - costs = margins
- Margins are allocated annually to members' equity accounts in proportion to their annual kWh consumption.
- Equity distributions in cash or credits are made as financial conditions allow.
 - LCEC has distributed over \$148 million directly to members.
- LCEC is financed by member equity and commercial bank loans.
 - All governmental debt paid off in 1987.
 - Paying off the governmental debt saved members over \$32.7 million.
- LCEC pursues FEMA reimbursement for storm restoration cost recovery and funding for mitigation projects.
- LCEC is subject to Florida state law and multiple regulatory jurisdictions.
 - North American Electricity Reliability Council (NERC)
 - Federal Energy Regulatory Commission (FERC)
 - Florida Public Service Commission (FPSC)
 - Jurisdiction over rate structure, conservation/reliability, territory and various reports.
 - LCEC frequently complies voluntarily with other FPSC requirements.

Where the 2007 Revenue Dollar Went

Revenues

(\$35.7 million for Marco Island in 2007)

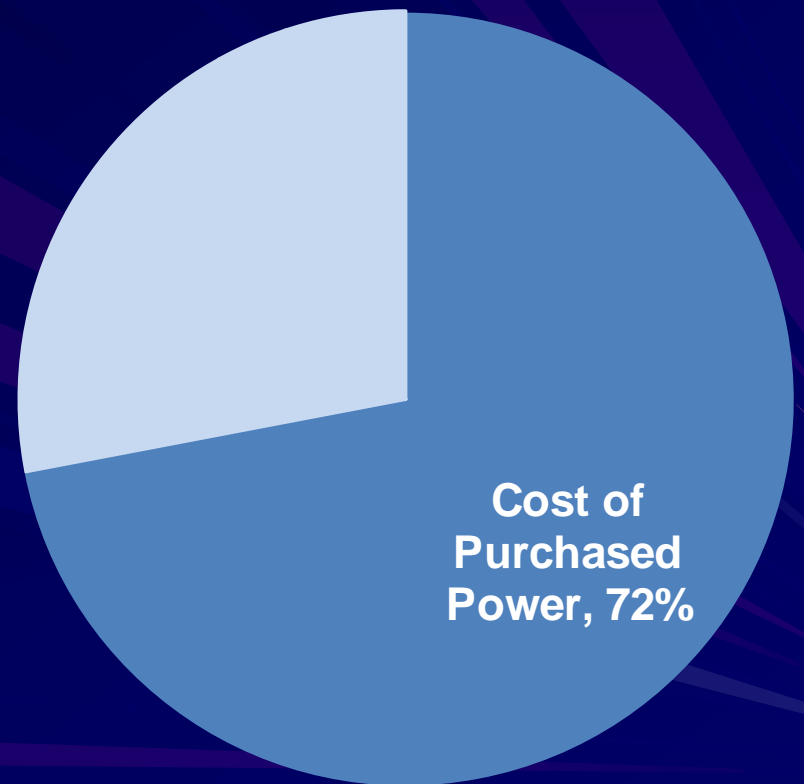


Source: LCEC 2007 Annual Report, internal analysis

Where the 2007 Revenue Dollar Went

Revenues (\$35.7 M)

- Costs
 - Purchased Power (at cost)



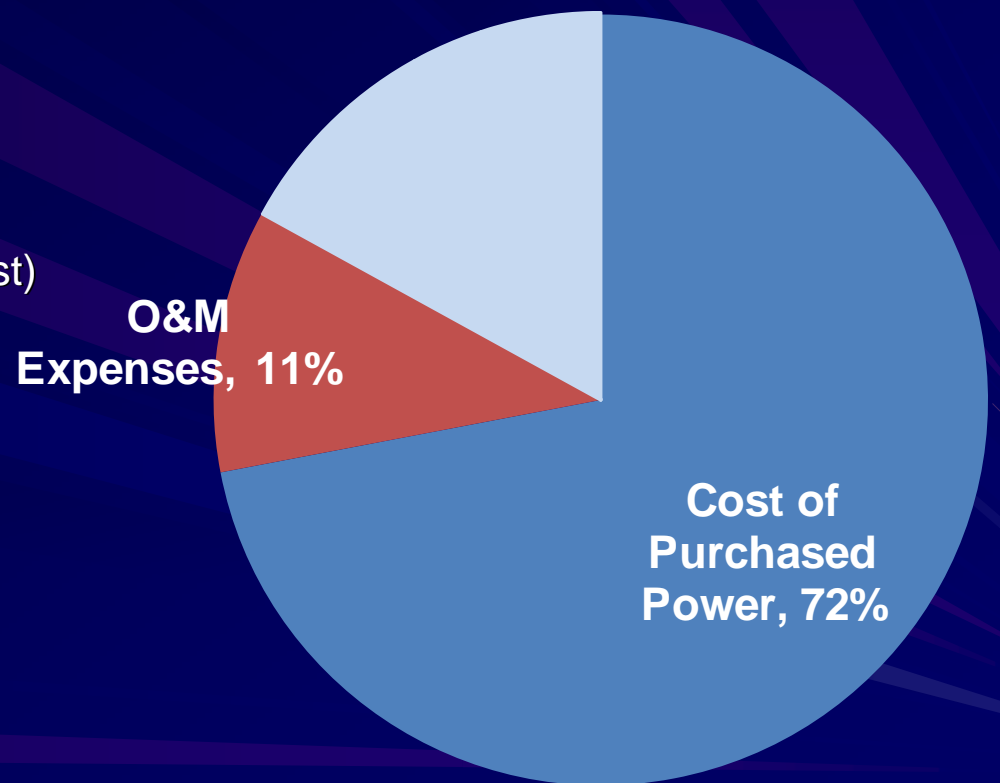
Source: LCEC 2007 Annual Report, internal analysis

Where the 2007 Revenue Dollar Went

Revenues (\$35.7 M)

- Costs

- Purchased Power (at cost)
- O&M Expenses



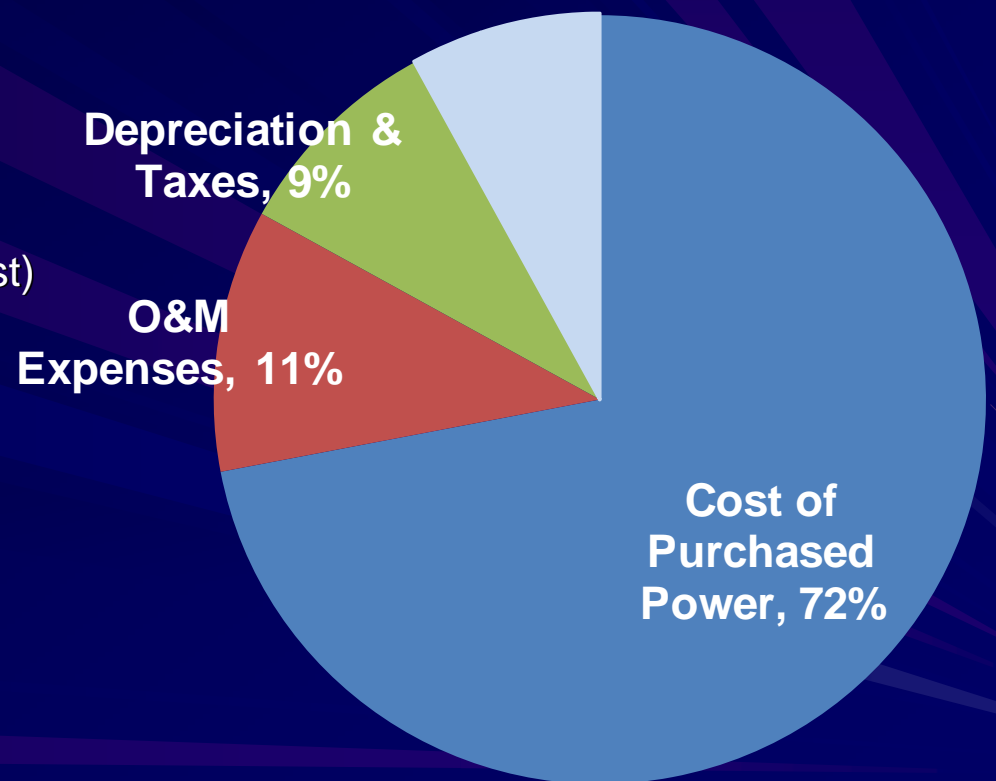
Source: LCEC 2007 Annual Report, internal analysis

Where the 2007 Revenue Dollar Went

Revenues (\$35.7 M)

- Costs

- Purchased Power (at cost)
- O&M Expenses
- Depreciation & Taxes



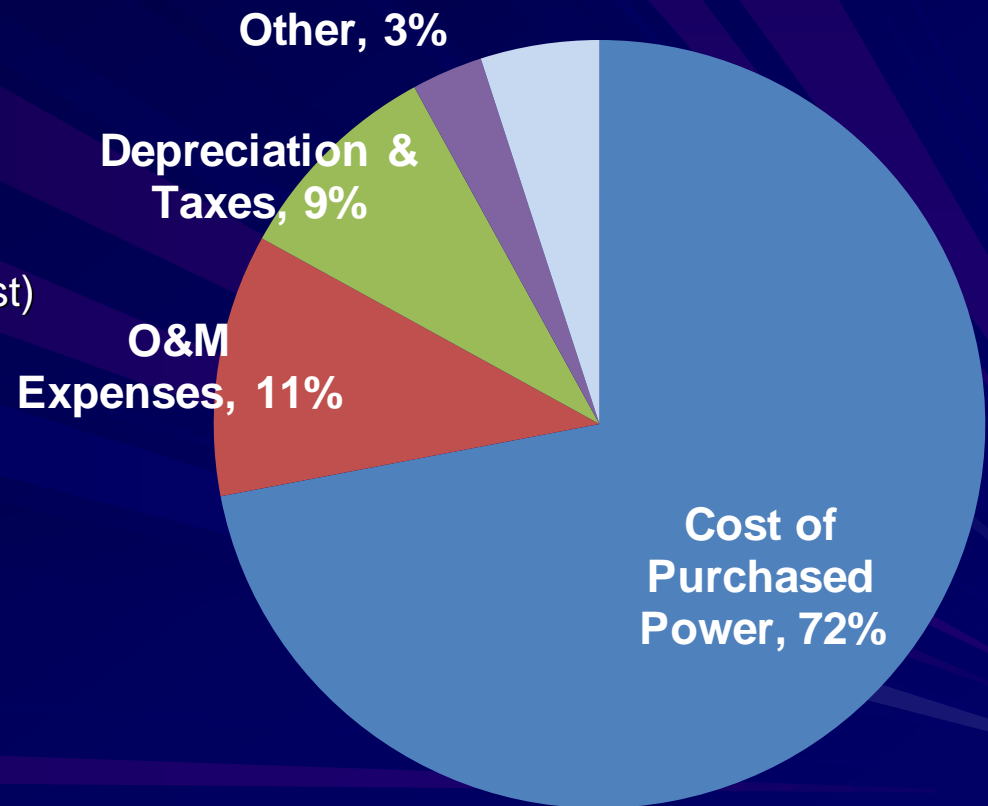
Source: LCEC 2007 Annual Report, internal analysis

Where the 2007 Revenue Dollar Went

Revenues (\$35.7 M)

- Costs

- Purchased Power (at cost)
- O&M Expenses
- Depreciation & Taxes
- Other (net interest)



Source: LCEC 2007 Annual Report, internal analysis

Where the 2007 Revenue Dollar Went

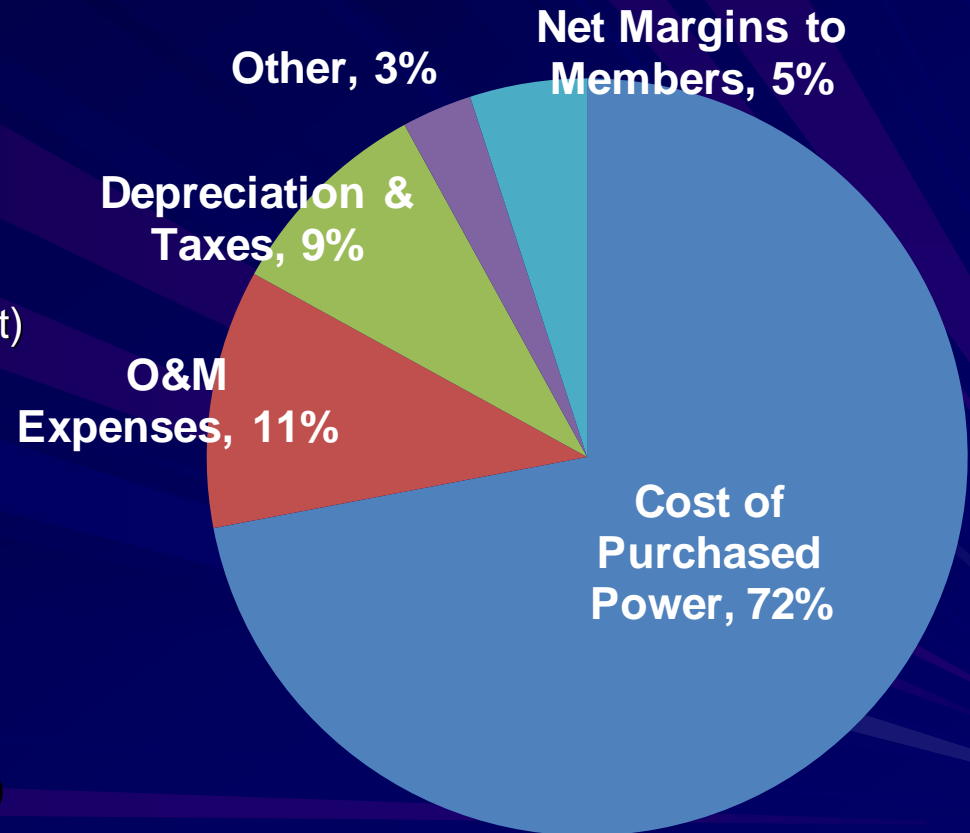
Revenues (\$35.7 M)

- Costs

- Purchased Power (at cost)
- O&M Expenses
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- Other (net interest)

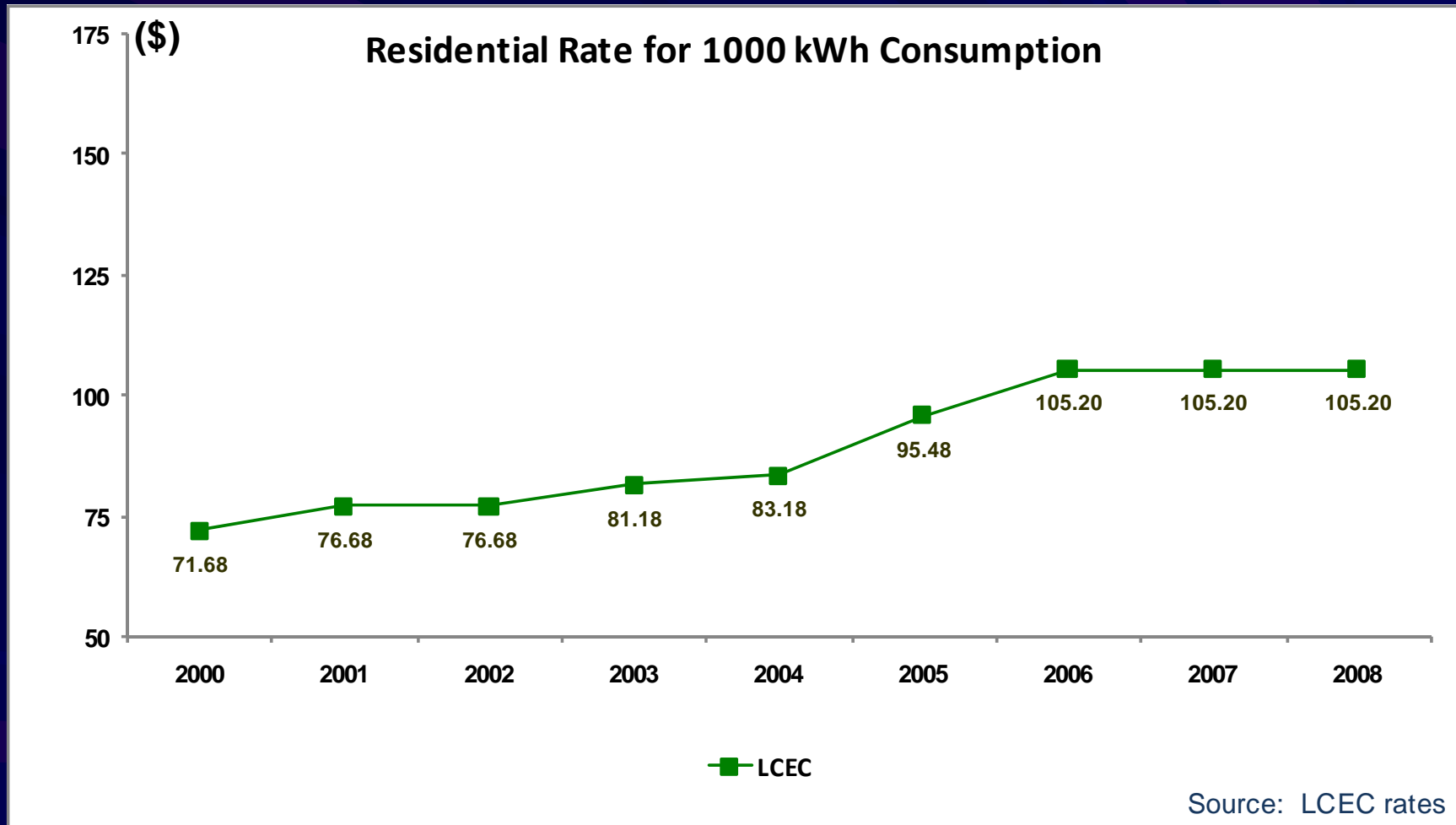
= Net Margins

(\$1.7 million for Marco
Island in 2007)



Source: LCEC 2007 Annual Report, internal analysis

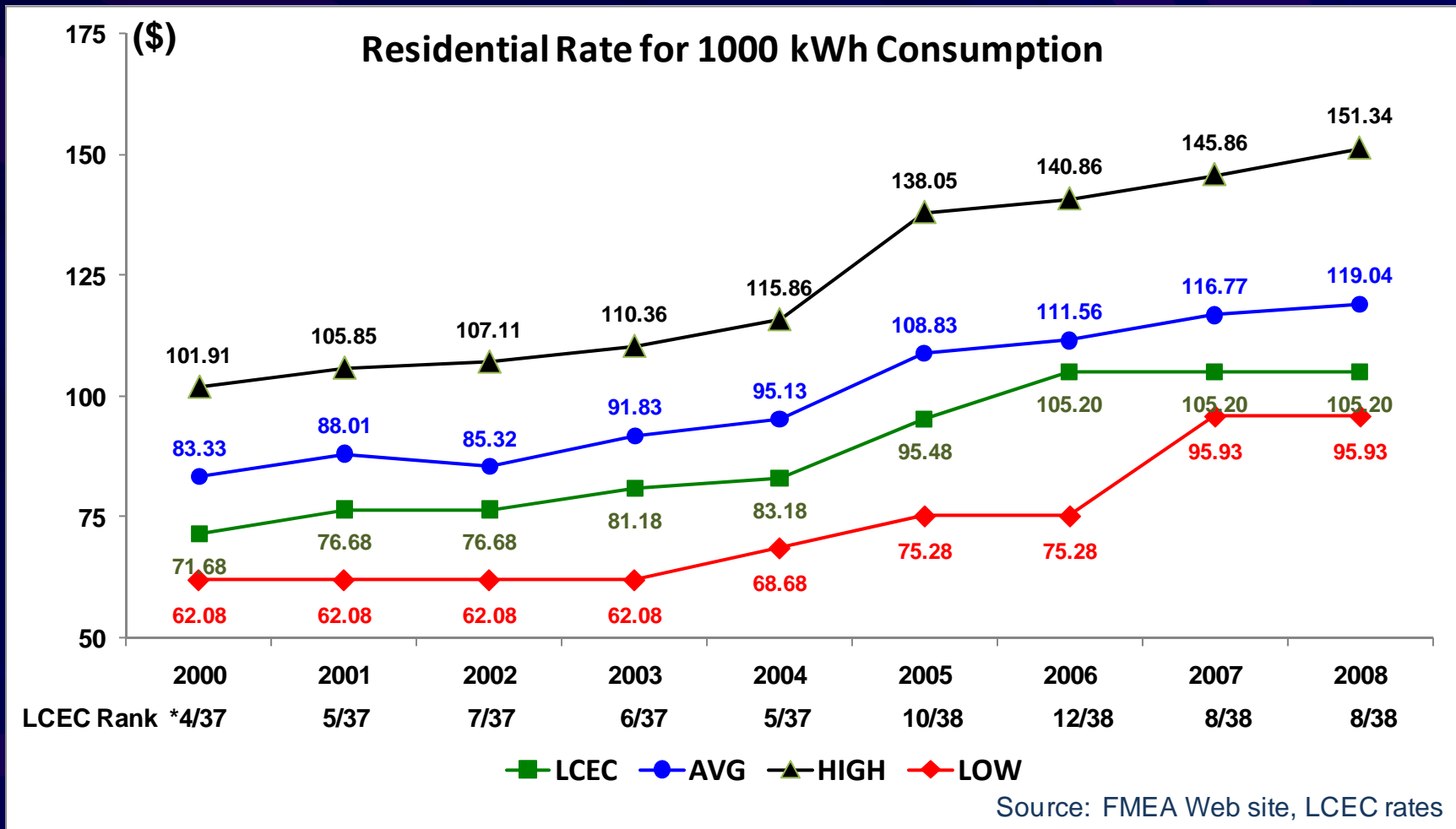
LCEC Residential Rate History



Rate Comparison with Municipal and Investor-Owned Utilities (IOUs)

- Rates for 38 electric utilities are available through the Florida Municipal Electric Association.
- Currently, rates of 33 municipals and 4 IOUs are tracked.
- Let's look at average, lowest, and highest of that group against LCEC.

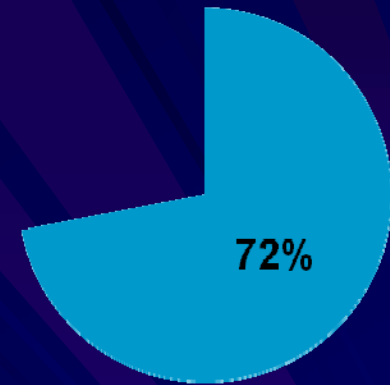
LCEC Residential Rate History



* 4th lowest out of 37 in 2000, etc

If pending rate increases are included, LCEC rank in 2008 improves from 8th to 6th

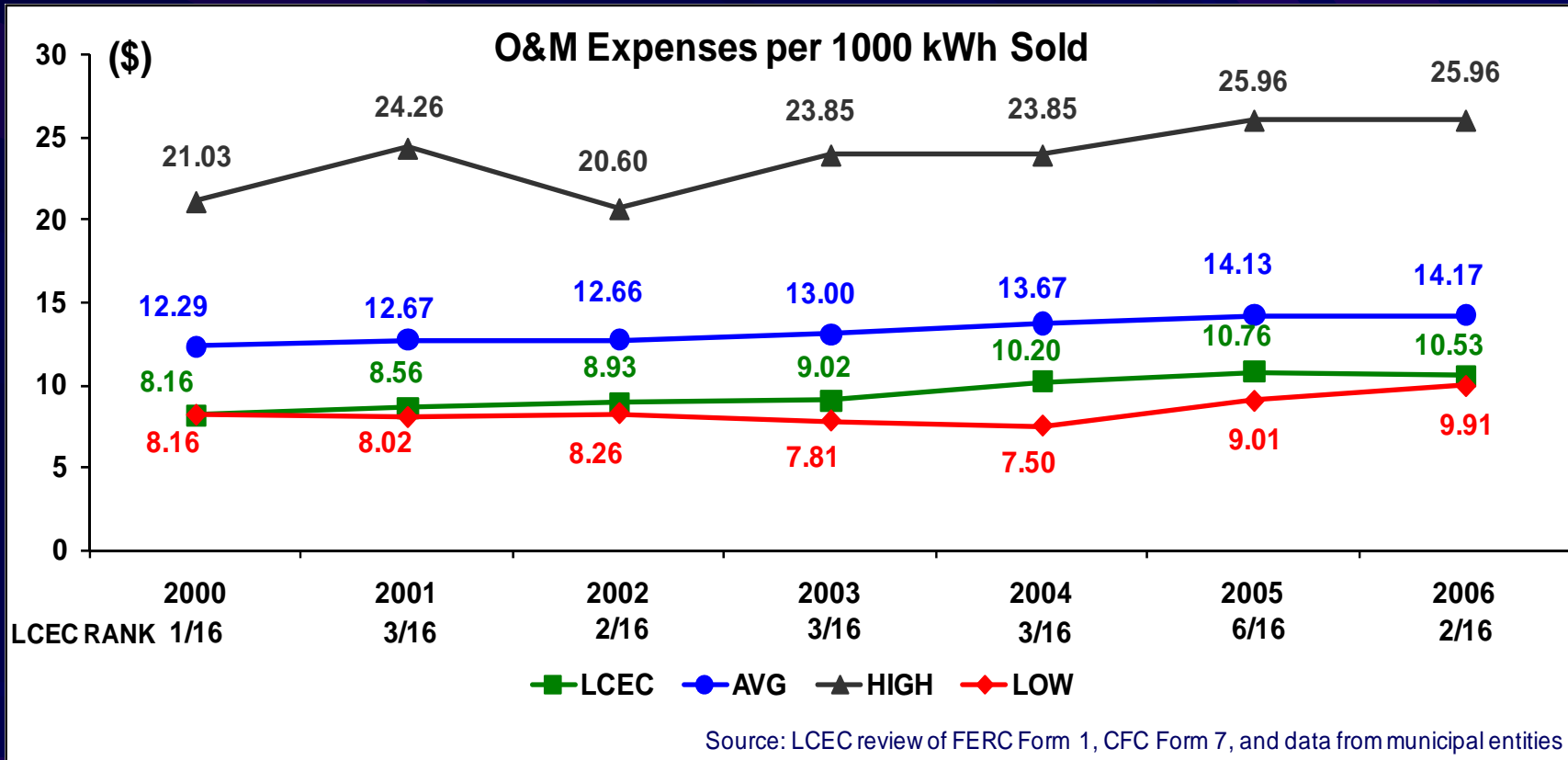
Wholesale Power Supply



- Power purchase analysis and decisions are complex.
 - Shortage of capacity
 - Fuel availability and price volatility
 - Increased global demand
 - Climate change concerns
 - Greenhouse gas concerns
- There is no restriction on who LCEC can purchase power from.
- LCEC has negotiated new wholesale power agreements.
 - As a result of settling litigation against Seminole Electric, the existing wholesale power contract terminates in 2014.
 - LCEC will begin to purchase wholesale power from FP&L beginning in 2010.
 - The agreements generally reflect the FP&L average system cost to generate electricity while protecting the interests of FP&L retail customers.
 - LCEC believes that this provides members with the lowest relative risk and best opportunity to keep electric rates competitive.

LCEC operating costs are low...

11%



- Comparison group includes 2 municipals, 3 investor-owned, and 11 cooperative electric utilities.
- O&M Expenses include transmission, distribution, customer accounts, sales, and A&G.

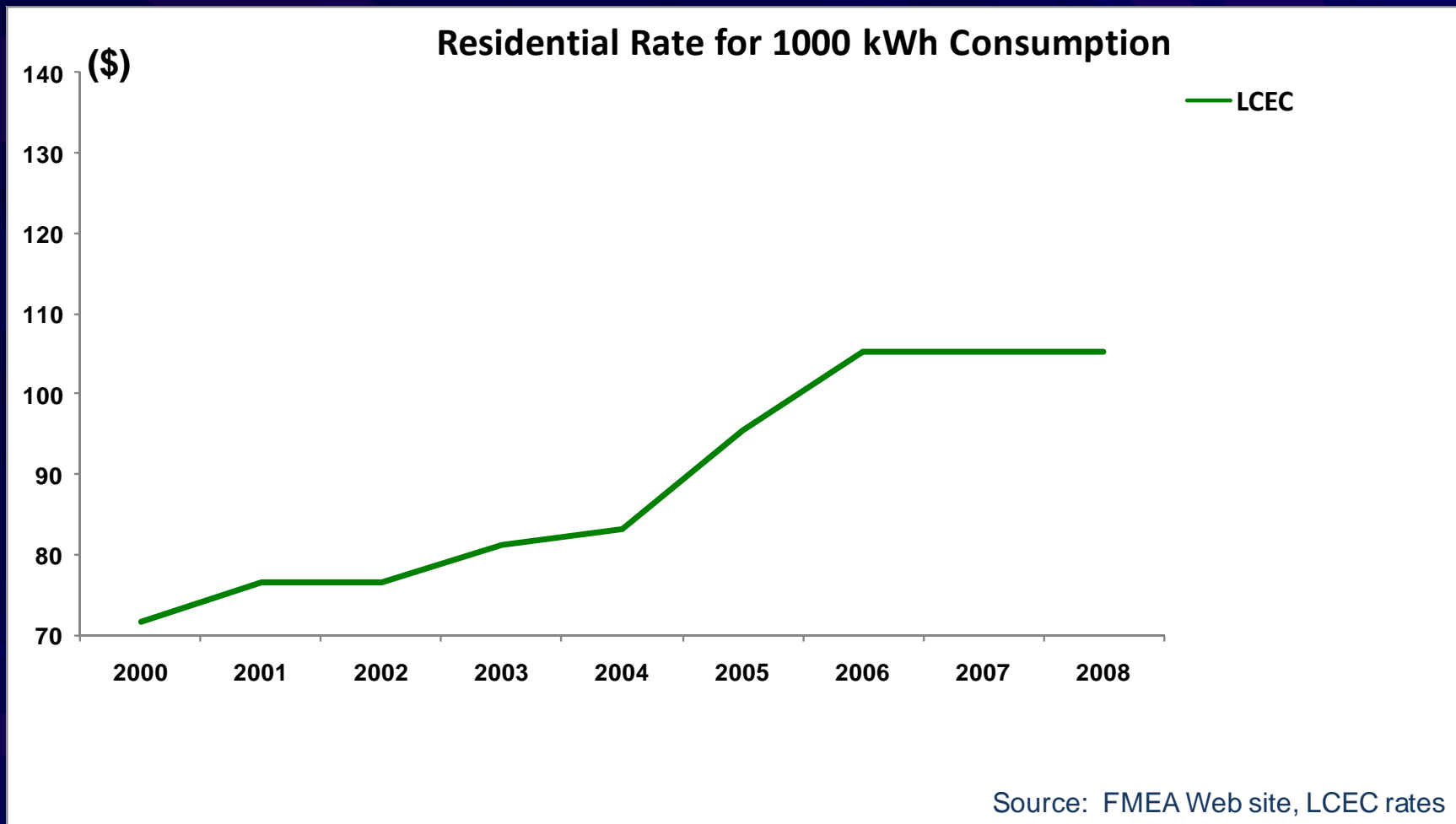
... and the opportunity for savings is small.

- LCEC O&M expenses are 11% of 2007 revenues.
- Upside savings (based on Marco Island kWh usage) for performance at best-in-group: ~\$200,000.
- Savings could come at risk to service reliability.
- Incremental cost for performance at:
 - Average-in-group: ~\$1,300,000
 - Highest-in-group: ~\$5,700,000
- LCEC continually looks for best practices and savings opportunities (including the use of outsourcing).

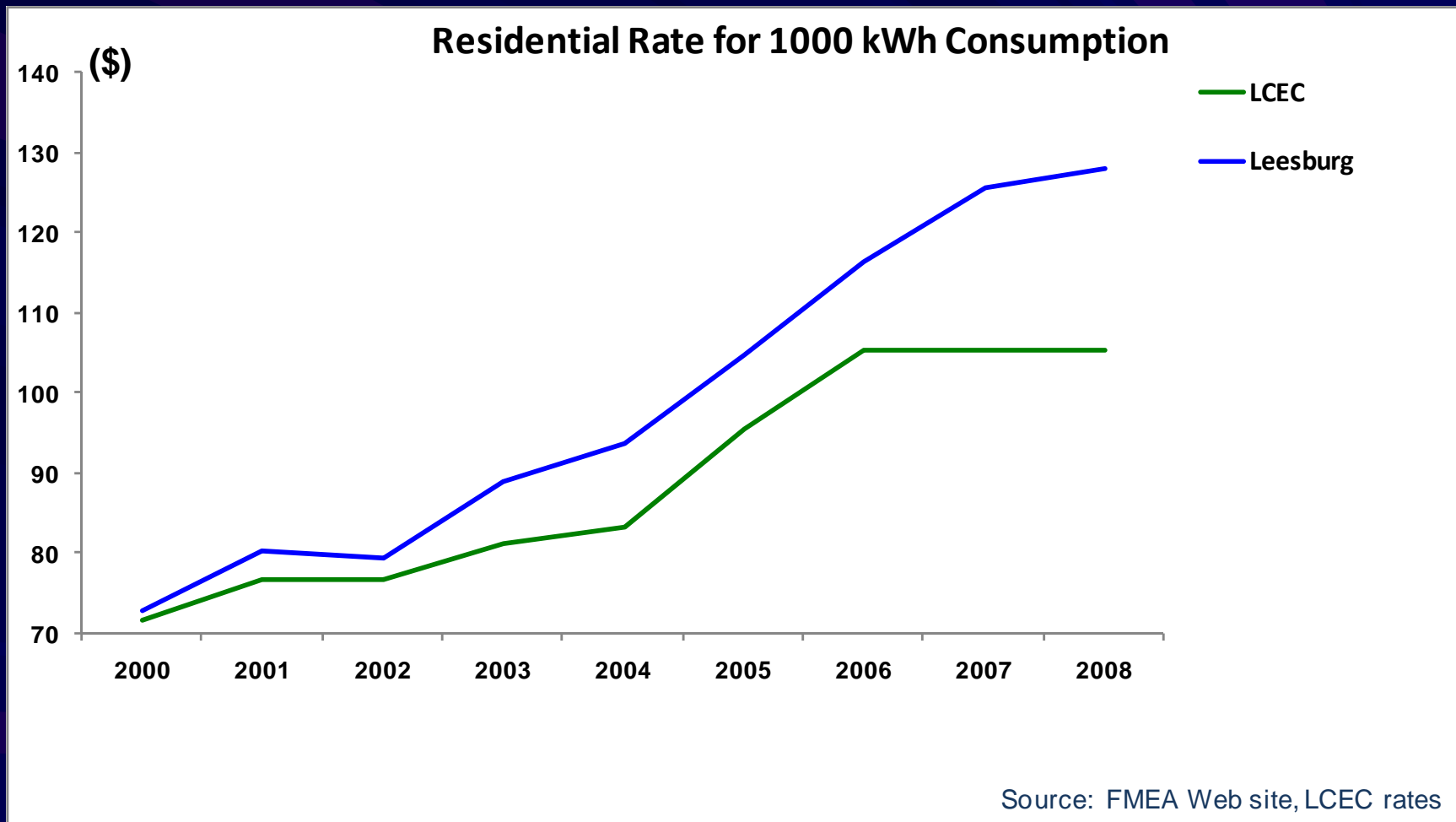
City has raised “possibilities” to eliminate subsidization and capture synergies.

- Some subsidization is inherent in utility rate making.
- Other areas in LCEC territory have higher customer density than Marco Island.
- LCEC management philosophy attempts to minimize subsidization.
- In 2008, Marco Island maintenance projects account for ~13% of budget, while proportional revenues are ~10%.
- As seen by rate history, capital investments to date have largely been paid for through growth of sales and customer count.
- Synergies increase with size.
- Other municipal utilities similar in size to Marco Island should have captured these “possibilities” if they exist...
 - Leesburg, Fort Pierce, Vero Beach, Homestead, New Smyrna Beach, Lake Worth.

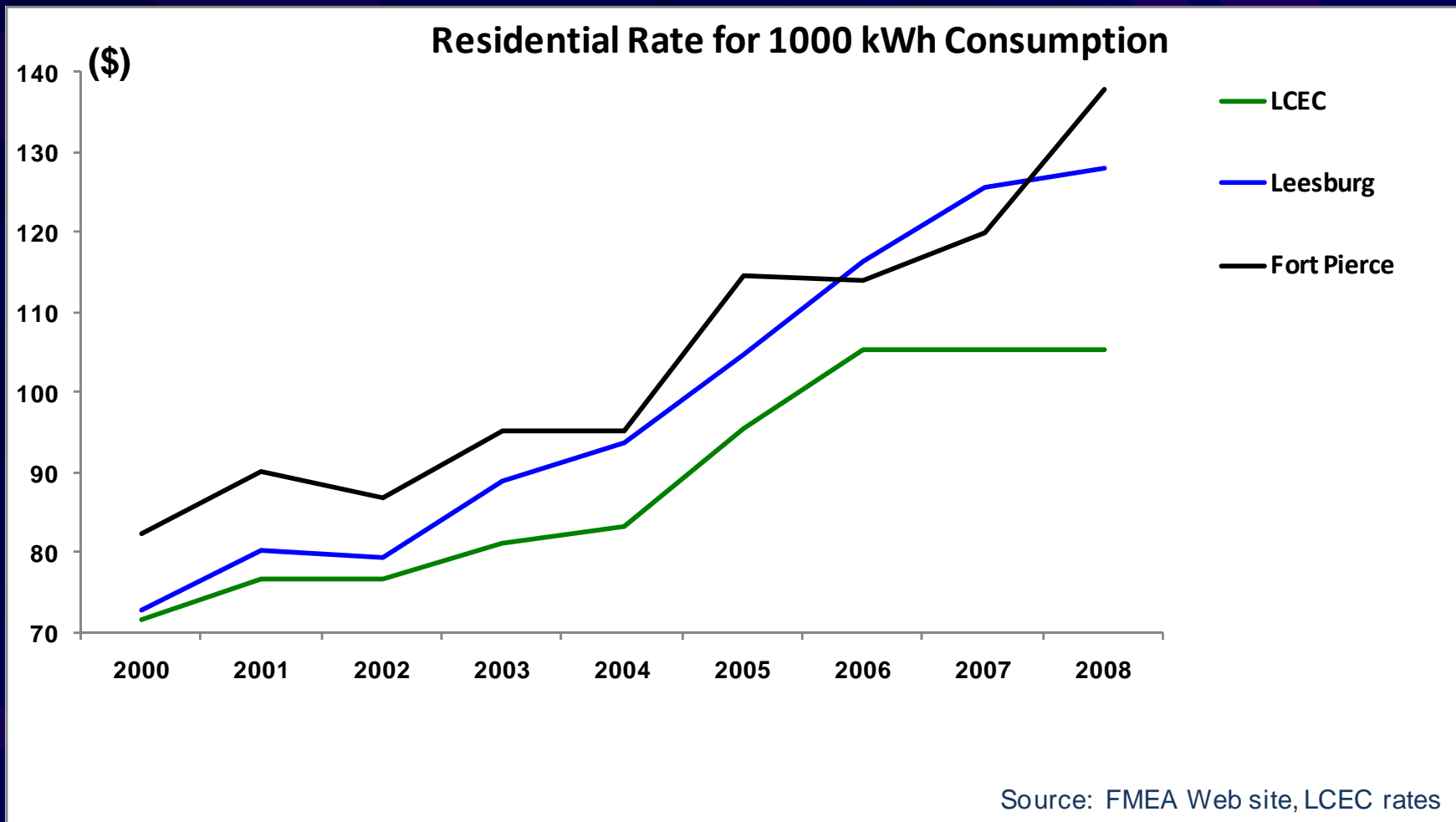
LCEC and Marco Island-sized Municipal Utility Residential Rates



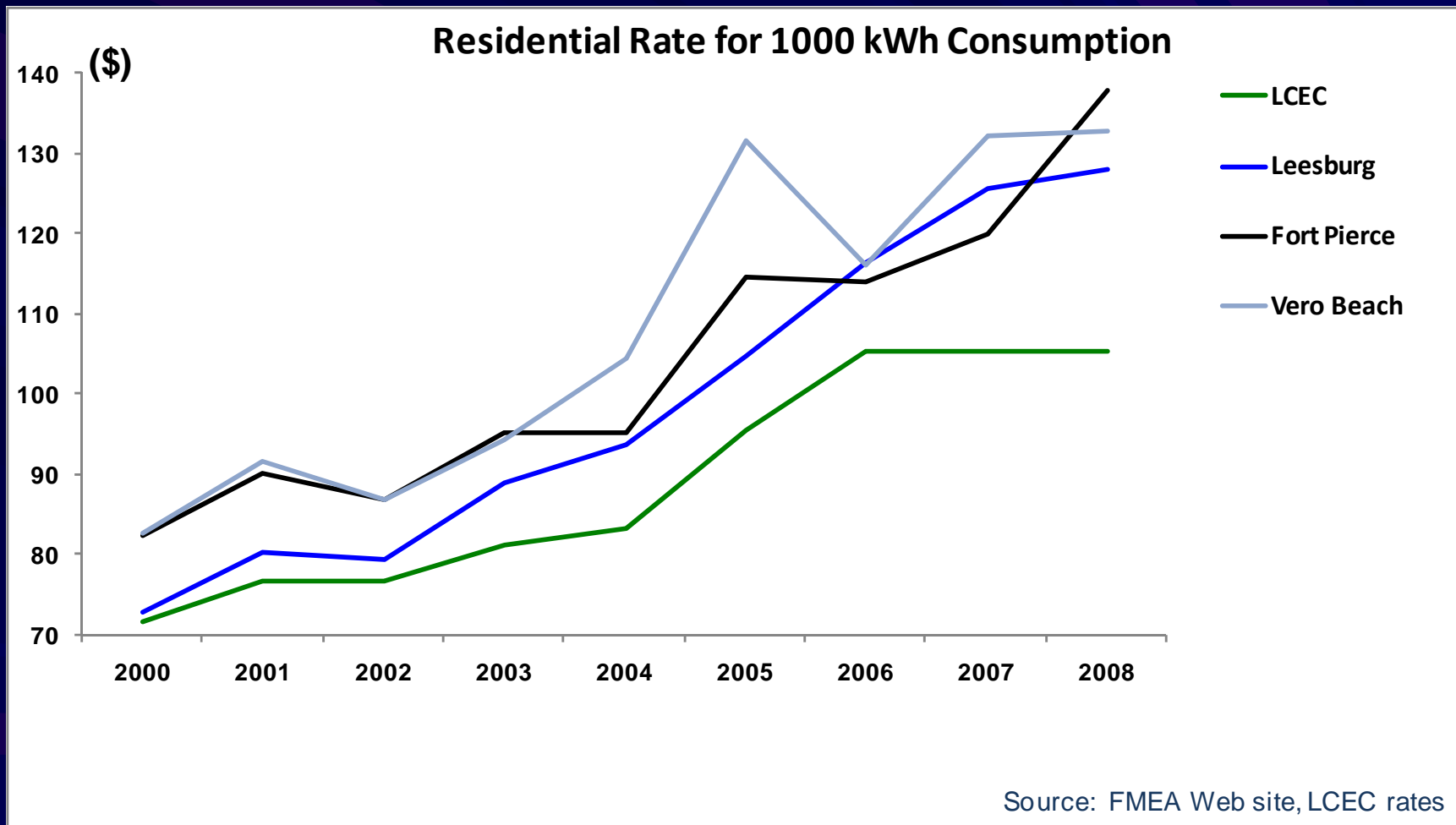
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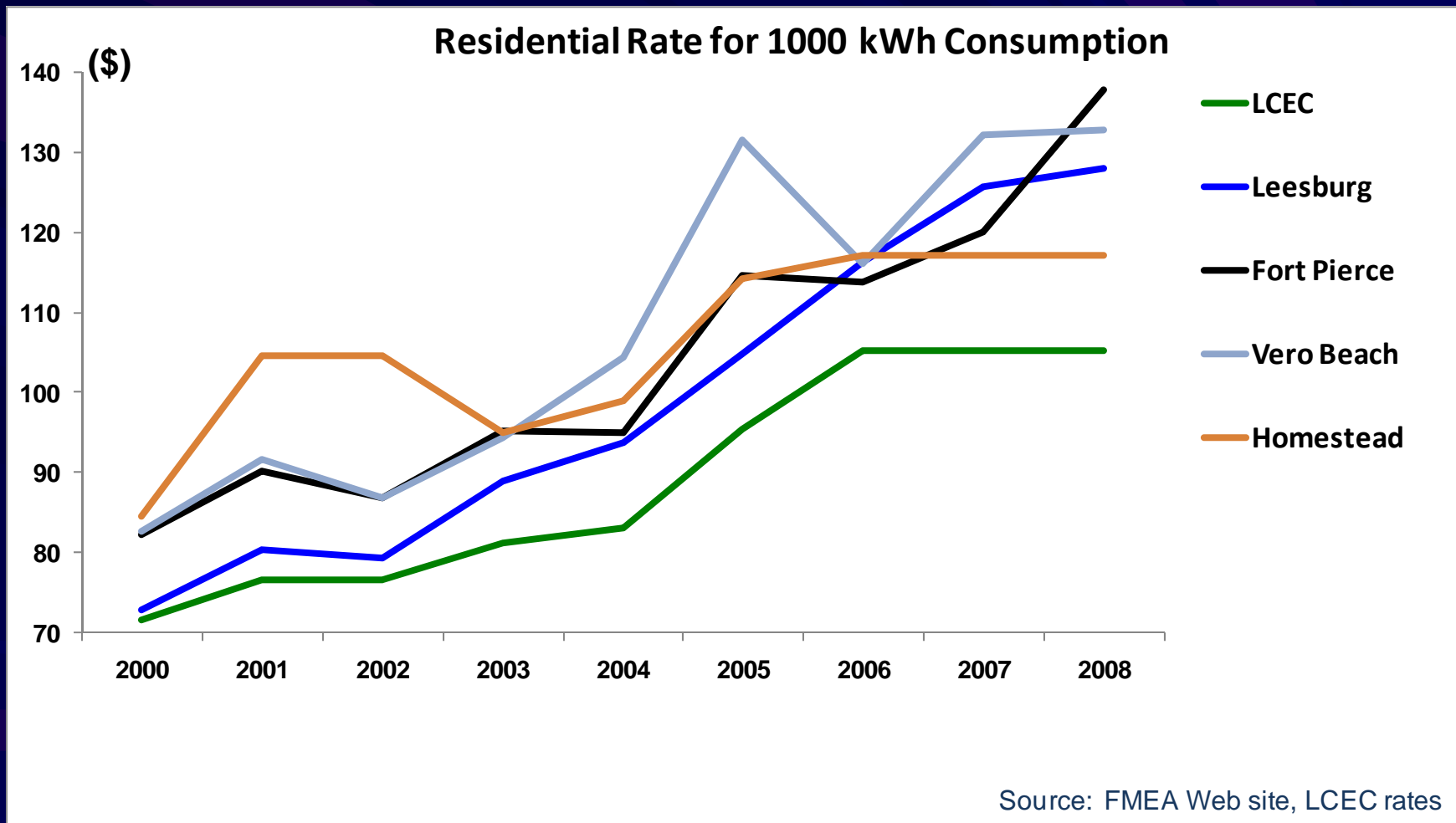
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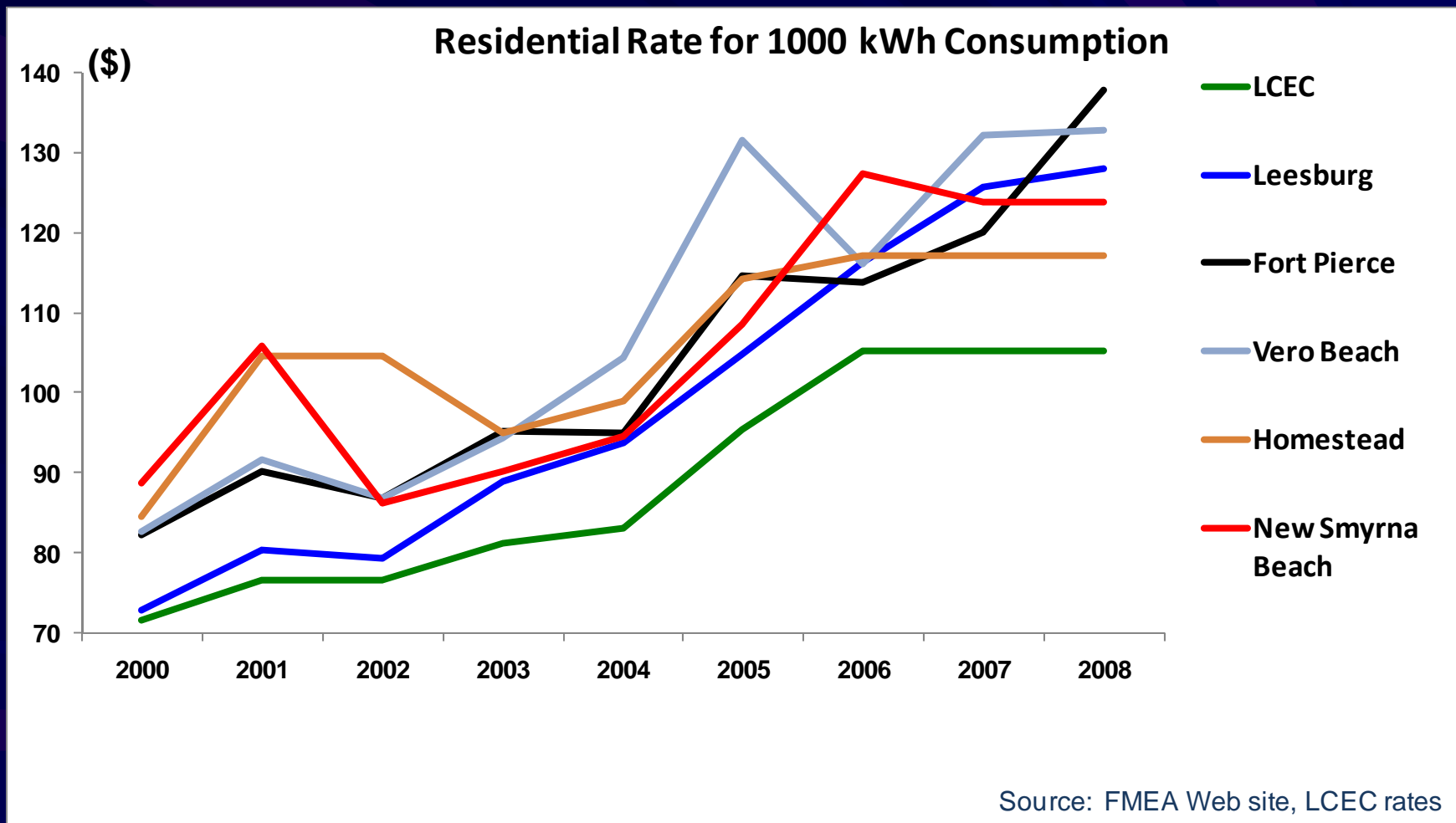
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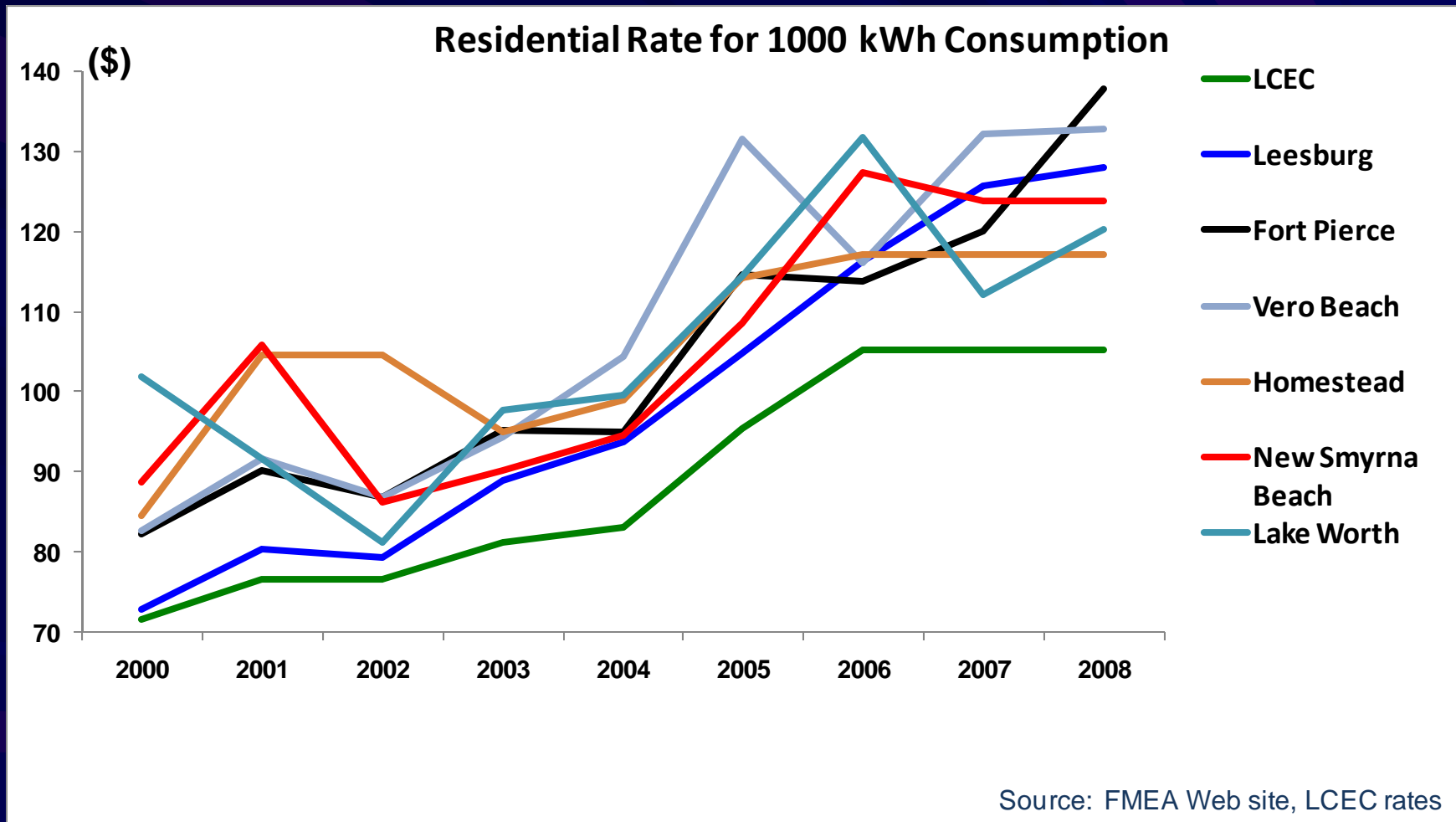
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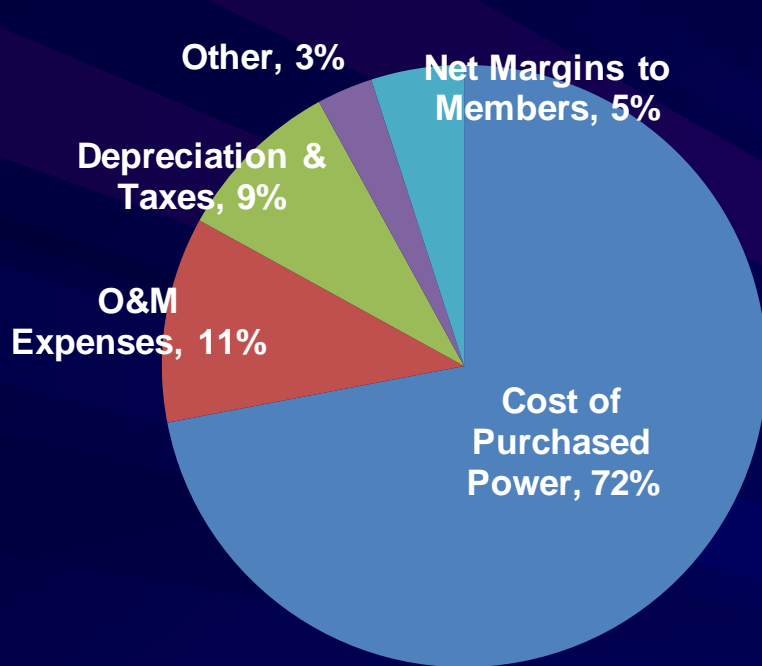
The taking of the LCEC system by the City would require financing...

- Using the recent acquisition of the water utility by Marco Island as an example, debt service in 2008 on the \$100 million financing is ~\$7 million, or 20% of 2007 Marco Island electric revenues.

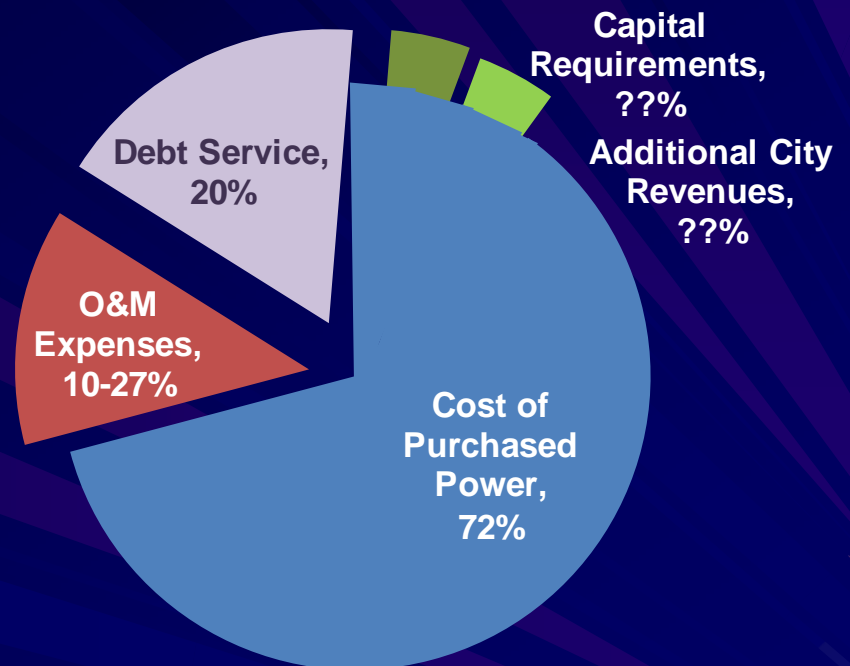
“Possibilities” for Saving and Additional Funding Raised by Marco Island City Staff

- ??? Wholesale electric – doubtful and with significant uncertainty/risk
- ??? Operating and maintenance – doubtful and, if realized, small
- ??? Subsidization and synergies – not apparent in rates of other similarly-sized municipals
- ??? Debt service on financing of purchase – not mentioned
- ??? Let’s look for additional revenue sources from the electric utility...

The City would likely have to raise rates to break-even, much less provide additional revenues.



LCEC



Marco Island (illustrative)

- City cost components exceed 100% of LCEC revenues.
- LCEC margins are gone.
- Recovery of costs and additional City revenues would have to come from higher rates.
- If City does not pay for self-use electric service, cost of purchased power for City use would be borne by citizens; otherwise, water rate increases or other fees would be required to cover costs

On Municipalization...

- LCEC is proud to serve the City of Marco Island and wants to continue to do so.
- LCEC will continue efforts to improve efficiencies and customer service.
- LCEC appreciates the need for Marco Island to find additional sources of revenue or savings.
- There is little reason to believe that the City can materially improve purchased power or operating cost performance.
- Current law allows for a taking and outlines price considerations.
- LCEC will vigorously oppose a taking of its electric system.
- While not favored by LCEC, the City could impose a public utility tax of up to 10% - this would be certain and risk-free.
- A taking of the electric system by Marco Island would not impact LCEC electric rates.
- LCEC believes that further study would consume resources that could otherwise be more productively employed.

New LCEC Tiered Rate Structure

- New LCEC rates are effective July 1.
 - Commercial rate structure is unchanged.
 - Residential rates fall under tier structure.
 - Fixed customer charge (increase from \$8 to \$15/month).
 - First 500 kWh rate lower than for 500-1000 kWh, for 500-1000 kWh lower than for >1000 kWh.
 - Tiered rate is designed to:
 - Align operating costs with cost drivers.
 - Mitigate customer charge increase on low-consumption customers.
 - Send proper price signals regarding efficiency and conservation.
- On average, 85% of Marco Island residential customers consume less than 2000 kWh/month, so will see an increase of less than \$8.50 per month.

Overhead to Underground Conversion

- LCEC has no objection to underground distribution service.
- LCEC rates, like others throughout the state, are based on overhead construction.
- Customers requesting underground service pay for extra costs associated with initial underground construction or conversion through a Contribution-In-Aid-of-Construction (CIAC) charge.
- The CIAC calculation provides a credit for the cost of an equivalent overhead system and salvage value of removed facilities.
- Maintenance and replacement costs for installed underground facilities are subsequently recovered through LCEC electric rates.
- Work performed by contractors must be performed in accordance with an LCEC-approved design and construction standards.

City of Marco Island

Single Phase Overhead/ Underground Conversion Project

October 4, 2004	City entered into a Franchise Agreement with LCEC following a public hearing and second reading of the Ordinance, Motion carried 6-0. Agreement ties franchise fee to project.
November 18, 2004	City officially requests a non-binding ball-park cost estimate to underground all single phase electric facilities on Marco Island - 74 miles
November 22, 2004	LCEC provided a non binding ball-park cost estimate to the City to underground 74 miles of single phase electric facilities in the amount of \$7.6m, as well as a binding quote of \$380k (non-refundable) for design work.
December 6, 2004	City Council authorized the initiation to relocate overhead power lines, 74 miles - Motion carried 6-0
January 13, 2005	LCEC received \$380k from City for detailed cost estimate and engineering design as approved by Council on December 6th, 2004
January 31, 2005	LCEC provided a binding cost estimate to City for phase 1 conversion in the amount of \$3.8m- valid through July 31, 2005.
August 8, 2005	LCEC provided a binding cost estimate to City for scope changes in Phase 1 - \$6.3m - valid through February 8th, 2006.
August 20, 2005	LCEC provided a binding cost estimate to City for additional scope changes in Phase 1 - \$3.6m - valid through February 20th, 2006.
April 27,2006	City staff provided verbal cancellation on Phase 1 single phase underground - LCEC staff is aware the scope has changed and this project is suspended until further notice.
May 22, 2006	CIP Workshop - Change of scope - Council directed City staff to work with LCEC to underground single phase electric utilities parallel the sewer assessment districts. City requests a non-binding cost estimate from LCEC for North Marco, North Barfield, South Barfield and West Winterberry.
June 8, 2006	LCEC provided a non-binding ballpark cost estimate to City for project in the North Marco District, North Barfield District, South Barfield and West Winterberry - \$3.5m
July 21, 2006	City Council approved LCEC proposal to design underground in the above mentioned districts - LCEC agrees to perform design work quoted at \$112k at no additional cost to City in consideration of actual cost of prior design work paid for by the City.
March 19 ,2007	City Council temporarily suspends the single phase underground conversion project. At suspension, LCEC was prepared to mobilize on the Project beginning April 1 (construction scheduled for April 1 - November 1). Three contract construction crews were staged and LCEC had already purchased ~\$500k of materials for the Project.
February 29, 2008	LCEC provided a non-binding ballpark cost estimate to the City to underground 74 miles of single phase electric facilities in the amount of \$30m, as well as a binding quote of \$1,520,000 for design work based on the assumption of a full re-design.

Overhead to Underground Conversion

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Overhead to Underground Conversion (cont.)

- LCEC is a sponsoring member of the FPSC-commissioned Storm Hardening Steering Committee, which is investigating costs and benefits of underground service.
- LCEC has offered to perform an analysis of the Marco Island project at no charge using a cost/benefit tool pending FPSC approval.
- An FP&L pilot program provides a discount for the CIAC cost of overhead-to-underground conversions.
- The pilot program is intended to allow cost/benefit data to be gathered following future storms.
- FP&L costs or savings under the pilot go into future electric rate-making.

Closing LCEC Comments

- Thank you for being here.
- We value the opportunity to serve you and take serious the associated obligations.
- We want you to be informed.
- We want you to make your voice heard.
- We are pleased to answer questions you have either on the presentation or other topics that we did not cover.

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