

Electric Service Provision in Cape Coral Q&A

Why is the City examining the franchise agreement with LCEC?

The City has a 30-year franchise agreement that expires in September 2016. This is the optimal time for the City to conduct due diligence and review the agreement. This is Cape Coral's opportunity to consider the history of the past 30 years and decide how best to proceed for the citizens and all the Cape Coral equity owners of LCEC.

What are the options for electric service in Cape Coral?

There are two options available:

- 1. Negotiate a new franchise agreement with LCEC*
- 2. Create a "municipal electric utility" to own and manage Cape Coral's electric service*

What about bringing in another electric provider?

Because of territorial agreements, the City does not have the option of negotiating with another electric service provider such as FPL.

If the contract ends in September 2016, doesn't the City have to decide soon which direction to take?

No. Evaluating the options and reviewing all the financial impacts may be a 3-5 year process. Legally, LCEC will be required to continue to provide the electric service until either a new franchise agreement is signed or the City establishes a municipal electric utility.

What is an "electric cooperative?"

LCEC is a rural electric cooperative that has been supplying electric service to Cape Coral since 1958. At that time, Cape Coral was not an incorporated city, and our population was sparse. Most of Cape Coral was vacant land. It was this type of non-urban environment that was the driving force behind the creation of rural electric cooperatives. Cooperatives became permanent fixtures in 1936, when the Rural Electrification Act was signed into law. This federal law became necessary because investor-owned electric utilities would not provide service to the vast majority of Florida (or the United States) claiming the cost was prohibitive. The REA empowered local farmers, residents and businesses to join together and create their own electric utilities. These became known as electric cooperatives.

What is a "Municipal Electric Utility?"

A Municipal Electric Utility is a power utility system owned and operated by a local jurisdiction. Municipal electric utilities have been in place for more than a century. There are 34 municipal electric (public power) utilities in Florida serving about 15 percent of the state's population (3 million people). In the United States, there are more than 2,000 municipal utilities, serving 14.7 percent of the nation's electrical needs, or one in seven persons.

Why is the City considering a Municipal Electric Utility?

In the franchise agreement, LCEC gives the City the right to consider purchasing the electric system serving Cape Coral and establishing a municipal electric utility. This provision provides Cape Coral with a very unique opportunity. The City now is doing its due diligence by evaluating the benefits of this option as well as the option of a new franchise agreement. The City of Cape Coral is no longer a sparsely developed city like we were in 1958. Cape Coral has more than 165,000 residents and is the 10th largest city in the state of Florida. Our residential and commercial customers also represent 44 percent of LCEC's customers. We have a fiduciary responsibility to our community to vet each option thoroughly so that City Council can make an informed decision on the best possible option.

Does the City have to “take over” LCEC to form a Municipal Electric Utility?

No. There is no “takeover.” LCEC has other service areas and would continue to provide electric service to those communities (Marco Island, Pine Island, Matlacha, North Ft. Myers, Immokalee, Everglades City, Lehigh Acres, etc). The City would not be purchasing electric facilities and providing service to those areas.

What are the benefits of a Municipal Electric Utility?

There are many benefits to having a locally owned and operated electric service. First and foremost, a municipal electric utility is focused only on the customers within its jurisdiction. This type of utility can ensure transparency in all decisions and record-keeping. Revenues can be invested in local projects preferred by the residents. We believe the benefits of an MEU also should be included in any new franchise agreement with LCEC. The following are some service delivery requirements we think would be important in any franchise renewal:

- *Auditable and transparent records*
- *City review of LCEC capital projects to allow coordination*
- *Reporting of capital expenditures within Cape Coral vs. LCEC total service area – assure pro rata*
- *Establishment of City-directed “Capital Improvement Fund” for community projects – funded by small percentage of LCEC revenues collected from Cape Coral customers (e.g. undergrounding electric lines or other projects)*
- *Monthly reliability reports*
- *Development of community solar photovoltaic projects, modernized/ lower-cost street lighting*
- *Requirement for LCEC to relocate systems in the public utility easement for needed road improvements or safety at their cost, not Cape Coral taxpayers*
- *Fiber optics development*
- *Use of LCEC smart meter path for water meter data collection*
- *Reduced term – 10 years*
- *Right to purchase with definitive valuation methodology*

Does the City have the knowledge and experience to run an electric utility?

Operating an electric utility requires specialized knowledge. We would not expect any current City department to have this technical knowledge or expertise. There will be qualified, reasonable and reliable options available should the City choose to establish a municipal electric utility. Operating a large utility is not a foreign concept to the City. We have knowledge and experience operating a large utility with our water and wastewater reclamation systems. The City provides these services to more than 57,000 accounts/customers. Our utilities operations are very efficient, and our reverse osmosis water plant receives visits from utilities representatives across the world.

Aren't the City's water and sewer rates the highest in the state?

No. In fact, Cape Coral's water and sewer rates are the lowest in Lee County. The City reduced water and sewer rates two years ago when City Council restarted the utilities extension projects and kept them the same this past year. Unlike other utilities facing increasing rates, our independent rate study indicates there should be no need for rate increases in the foreseeable future.

Will the City raise electric rates if it takes over the electric service for Cape Coral?

Our independent feasibility study indicates the City should be able to maintain rates that are competitive with or less than rates within the region.

How will the City pay the costs for establishing a Municipal Electric Utility?

The City first would need a complete audit of the financial records with LCEC and then determine/negotiate a purchase price for the existing capital equipment and facilities in Cape Coral. The purchase would be completed most likely with a revenue bond paid with proceeds from monthly electric bills.

If you are using a revenue bond and electric proceeds to pay the debt service, wouldn't the City have to raise electric rates?

Based on the City's independent feasibility study, sufficient revenues will be collected to meet debt service obligations with no need for a rate increase.

Will the City have to buy all of the LCEC equipment?

No. The City should only need to purchase the distribution system that serves Cape Coral.

How much will it cost the City to buy the LCEC equipment serving Cape Coral?

The initial feasibility study contained a rough estimate of \$450 million, which most likely is too high. We will not know the actual value of the assets until LCEC provides the City with the financial information necessary to conduct a true audit. The rough estimate also does not take into consideration the equity Cape Coral and its LCEC equity owners have built in the system through years of coop membership.

Will service delivery be impacted?

No. Electric service would continue to be delivered and the system maintained during this evaluation period. If the City decides to establish a municipal electric utility, the decision as to how the service delivery and maintenance will be provided will be determined at that time. There is more than one option, and electric service will not be impacted negatively.

Isn't an MEU just another way for the City to generate revenue?

No. While a municipal electric utility has the potential to provide revenues to the City, there are other equally important reasons to consider. Local control within the community provides opportunities for customized service enhancements, solar energy options, LED lighting, etc. Citizens have more input into the direction of the utility, and financial records are transparent.

Will an MEU create another large City department and more salary/pension obligations?

No, not necessarily. There are different options available to provide the electric service, which do not require the establishment of a new City department.

Would City Council oversee the utility and decide rates?

No, not necessarily. Just as noted in the answer to the previous question, there are different options available for the oversight of a municipal electric utility.

Would the City continue to collect the franchise fee and public service tax?

Most municipal electric utilities continue to collect franchise fees and public service taxes. The public service tax is a separate revenue source that Cape Coral only applies to electric consumption (no other utilities). This is one of the three main revenue sources that provide stability for the City General Fund operating budget.

What about my equity checks I get from LCEC?

As equity owners in LCEC, Cape Coral customers have an investment in the coop. How that investment is addressed will be part of franchise negotiations or the establishment of the municipal electric utility.

Doesn't a franchise agreement provide the best option for Cape Coral?

It could be the best option. If the City is able to secure all the desired service levels and obtain an agreement that works in the best interests of our citizens, then a franchise agreement is the best option.

What does the City need to know before agreeing to a new franchise agreement?

There is quite a bit of information (financial, reliability, etc) the City needs so that we can perform a thorough and complete evaluation of the electric options. How are rates calculated? How much capital investment comes to Cape Coral? What is the value of the LCEC assets in Cape Coral? How is "equity" calculated and distributed? These are just a few of the questions. Conducting an audit is a reasonable step, and this is an option provided to the City within the current franchise agreement.

Why is it important to know how rates are calculated?

While Cape Coral makes up 44 percent of the customer base of LCEC, the city is about 6 percent of LCEC's geographic service area. Knowing how rates and other costs are calculated and distributed will ensure that Cape Coral customers are not subsidizing other LCEC service districts.

When will the City receive this financial information from LCEC?

The City has made several requests for various financial data from LCEC. LCEC has provided some of the data but not all of the financial and operational information required for the City to reasonably evaluate our options. We remain optimistic that LCEC will be a cooperative partner with the City and provide the information necessary for our review.

Is the City considering a municipal electric utility because of a feud with LCEC about who pays for moving electric poles or undergrounding electric wires?

No. The City asserted that the cost to relocate utilities from the right of way or public easement for road widening projects should be paid by the utilities company not the taxpayers of Cape Coral. LCEC disagreed, which forced the City to pay the costs upfront to keep the road projects moving forward. The City then had to take legal action to recoup the money. The City's position was supported by 100 years of state law, and the City prevailed at every court level including the Florida Supreme Court. LCEC appealed each court decision and extended the legal process for about 10 years. Once the Florida Supreme Court refused to hear the case in September 2014, LCEC finally agreed to negotiate a settlement with the City.