

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2008

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, interest on the Taxable 2008 Series A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel is of the opinion that the Taxable 2008 Series A Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by Corporations, banks and savings associations. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Taxable 2008 Series A Bonds. See "TAX MATTERS" herein.

\$000,000,000*
City of Gainesville, Florida
Utilities System Revenue Bonds
2008 Series A
(Federally Taxable)



Dated: Date of Delivery

Due: October 1, 20

The Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) (the "Taxable 2008 Series A Bonds") will be issued as fully registered bonds and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Taxable 2008 Series A Bonds. Individual purchases of Taxable 2008 Series A Bonds will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. See "THE TAXABLE 2008 SERIES A BONDS – Book-Entry Only System" herein.

The Taxable 2008 Series A Bonds are being issued by the City of Gainesville, Florida (the "City") [(a) to pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater and telecommunications systems (collectively, the "System") and (b) to pay costs of issuance of the Taxable 2008 Series A Bonds, as more particularly described herein.]

The Taxable 2008 Series A Bonds bear interest from their dated date payable each October 1 and April 1, commencing October 1, 2008.

The Taxable 2008 Series A Bonds are subject to redemption prior to maturity as described herein.

[As more fully described herein, the City has received a commitment from [INSURER] to insure the payment of the principal of and interest on all or a portion of the Taxable 2008 Series A Bonds when due. The decision as to whether all or any portion of the Taxable 2008 Series A Bonds will be insured will be made at or about the time of the pricing of the Taxable 2008 Series A Bonds and will be based upon, among other things, market conditions existing at such time. See "MUNICIPAL BOND INSURANCE" herein.]

MATURITY SCHEDULE – See Inside Cover Page

The Taxable 2008 Series A Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit or the taxing power of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the Trust Estate as provided in the Resolution (as such terms are defined herein).

The Taxable 2008 Series A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., City Attorney, and for the Underwriter by Nixon Peabody LLP, New York, New York. It is expected that the Taxable 2008 Series A Bonds in definitive form will be available for delivery to DTC in New York, New York on or about _____, 2008.

GOLDMAN, SACHS & CO.
_____, 2008

***Preliminary, subject to change.**

This Preliminary Official Statement and the information contained herein are subject to change, completion or amendment without notice. The 2008 Series A Bonds may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Series A Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**AMOUNTS, MATURITIES, INTEREST RATES,
PRICES OR YIELDS AND CUSIP NUMBERS^{†*}**

**\$000,000,000*
2008 Series A (Federally Taxable)**

\$000,000,000* Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Price or</u> <u>Yield</u>	<u>CUSIP[†]</u>
-----------------------------------------------------	-----------------------	-----------------------------	-----------------------------------------------	---------------------------------

\$000,000,000* ___% Term Bonds Due October 1, 20 @ ___%
(CUSIP Number _____)

[†] CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the Taxable 2008 Series A Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness in the Taxable 2008 Series A Bonds or as indicated above.

* Preliminary, subject to change.

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Pegeen Hanrahan..... Mayor
Stuart Craig Lowe Mayor Pro-Tem, Commissioner
Edward B. Braddy Commissioner
Richard J. Bryant..... Commissioner
John F. Donovan Commissioner
Scherwin L. Henry Commissioner
Jeanna Mastrodicasa..... Commissioner

Russ D. Blackburn..... City Manager
Marion J. Radson, Esq..... City Attorney
Kurt M. Lannon..... Clerk of the Commission
Brent L. Godshalk City Auditor
Jimmie Williams Equal Opportunity Director

Utilities System

Karen S. Johnson..... General Manager for Utilities
Karen C. Alford..... Interim Assistant General Manager – Energy Supply
David E. Beaulieu, P.E..... Assistant General Manager – Energy Delivery
David M. Richardson, P.E..... Assistant General Manager – Water and Wastewater Systems
Jennifer L. Hunt, CPA..... Chief Financial Officer, Utilities
Edward J. Regan, P.E..... Assistant General Manager – Strategic Planning
Raymond O. Manasco, Jr., Esq. Utilities Attorney
Kathy E. Viehe Assistant General Manager – Customer Support Services

CONSULTANTS

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New York, New York
Bond Counsel

Public Financial Management, Inc.
Philadelphia, Pennsylvania
Financial Advisor

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This Official Statement does not constitute an offer to sell the Taxable 2008 Series A Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Taxable 2008 Series A Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Certain information set forth herein has been furnished to the City by sources which are believed to be reliable, but is not guaranteed as to its accuracy or completeness. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City's utilities system or of the City since the date hereof.

Other than with respect to information concerning [] ("INSURER") contained under the caption "MUNICIPAL BOND INSURANCE" herein and in APPENDIX G hereto, none of the information in this Official Statement has been supplied or verified by [INSURER] and [INSURER] makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information or (ii) the validity of the Taxable 2008 Series A Bonds.

THE UNDERWRITER HAS ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE TAXABLE 2008 SERIES A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE TAXABLE 2008 SERIES A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The CUSIP numbers indicated on the inside cover page of this Official Statement have been assigned by an organization not affiliated with the City and is included solely for the convenience of the holders of the Taxable 2008 Series A Bonds. The City is not responsible for the selection or uses of the CUSIP numbers, nor is any representation made as to its correctness in the Taxable 2008 Series A Bonds or as indicated on the cover page of this Official Statement.

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Official Statement
relating to
\$000,000,000*
City of Gainesville, Florida
Utilities System Revenue Bonds
2008 Series A
(Federally Taxable)

INTRODUCTORY STATEMENT

General

This Official Statement, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the issuance by the City of Gainesville, Florida (“Gainesville” or the “City”) of its \$000,000,000* Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) (the “Taxable 2008 Series A Bonds”). The City’s mailing address is Utilities Administration Building, Post Office Box 147117, Gainesville, Florida 32614-7117. The City can be reached by telephone at (352) 334-3400.

[The Taxable 2008 Series A Bonds will be issued by the City (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the “System”) and (b) to pay costs of issuance of the Taxable 2008 Series A Bonds. See “SOURCES AND USES OF FUNDS” herein.]

The City, located in Alachua County in north-central Florida (the “County”), is a municipal corporation of the State of Florida (the “State”), organized and existing under the laws of the State including the City’s Charter, Chapter 90-394, Laws of Florida, 1990, as amended (the “Charter”). The Taxable 2008 Series A Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the “Resolution”), including as supplemented by the Nineteenth Supplemental Utilities System Revenue Bond Resolution (the “Nineteenth Supplemental Resolution”) authorizing the Taxable 2008 Series A Bonds to be adopted by the City on January [28], 2008; Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank Trust National Association (formerly First Trust of New York, National Association) currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The Taxable 2008 Series A Bonds will be payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of October 1, 2007, there were \$535,495,000 aggregate principal amount of bonds outstanding under the Resolution. The Taxable 2008 Series A Bonds, the bonds to be outstanding after the date of issuance of the Taxable 2008 Series A Bonds and any additional parity bonds which may be issued in the future are referred to herein collectively as the “Bonds.” For a more detailed discussion of the City’s outstanding debt, its plan of financing and the debt to be outstanding after the issuance of the Taxable 2008 Series A Bonds, see “OUTSTANDING DEBT” and “ADDITIONAL FINANCING REQUIREMENTS” herein.

* Preliminary, subject to change.

The City covenants in the Resolution to collect rates sufficient so that the Revenues (as defined in the Resolution) of the System are expected to yield Net Revenues (as defined in the Resolution) which shall be equal to at least 1.25 times the Aggregate Debt Service (as defined in the Resolution) on the Bonds for the forthcoming 12-month period. Additional Bonds may be issued under the Resolution on a parity with the Taxable 2008 Series A Bonds subject to certain conditions provided in the Resolution.

In addition to its Outstanding Bonds, as of October 1, 2007, the City also had outstanding \$62,000,000 in aggregate principal amount of subordinated indebtedness ("Subordinated Indebtedness") issued under the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

The Utilities System

For the fiscal year ended September 30, 2007, the electric system, which served an average of 89,912 residential, industrial and commercial customers (representing approximately 76% of the population of the County), accounted for 71% of gross revenues and 61% of net revenues of the System. The System owns and operates two generating stations and a "landfill gas to energy" facility, having a combined net summer capability of 600 megawatts ("MW"), and owns an 11 MW share of the Crystal River 3 nuclear powered electric generating unit ("CR-3") which is operated by Progress Energy Florida, Inc. ("PEF"). The System also owns various transmission and distribution facilities. For the five fiscal years ended September 30, 2007, the System's fuel mix was as follows: coal 67.3%; natural gas 24.1%; nuclear 5.1%; and oil 3.4%, as a percentage of net generation. For the fiscal year ended September 30, 2007, the System's fuel mix was as follows: coal 69.4%; natural gas 23.7%; nuclear 5.4%; and oil 1.5%, as a percentage of net generation.

The natural gas distribution system, which served an average of 33,125 customers during the fiscal year ended September 30, 2007, accounted for 9% of gross revenues and 5% of net revenues and is comprised of 723 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from four delivery points interconnected with facilities of the Florida Gas Transmission Company ("FGT").

The water system, which served an average of 67,774 customers during the fiscal year ended September 30, 2007 accounted for 8% of gross revenues and 14% of net revenues. The water system includes a water treatment plant having a nominal capacity of 54 million gallons per day ("Mgd"), water supply wells and distribution facilities.

The wastewater system, which served an average of 62,005 customers during the fiscal year ended September 30, 2007 accounted for 9% of gross revenues and 17% of net revenues. The wastewater system consists of two major wastewater treatment plants having a combined capacity of 22.4 Mgd annual average daily flow ("AADF"), force mains and gravity wastewater collection sewers.

The telecommunications system ("GRUCom") interconnects four interexchange carriers, the local exchange carrier and six wireless (cellular telephone) carriers and consists of 301 miles of fiber optic cable, 13 antenna sites, and associated network equipment. As of September 30, 2007, GRUCom provided broadband data and Internet services to 5,861 residential and commercial customers and provides public safety radio to all the major public safety agencies in the County. During the fiscal year ended September 30, 2007, GRUCom accounted for 3% of gross revenues and 3% of net revenues.

Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate to be executed by the City simultaneously with the delivery of the Taxable 2008 Series A Bonds (the “Continuing Disclosure Certificate”), the City will covenant for the benefit of the Holders and the “Beneficial Owners” (as defined in the Continuing Disclosure Certificate) of the Taxable 2008 Series A Bonds to provide certain financial information and operating data relating to the System by not later than six months after the end of each of the City’s Fiscal Years (presently, by each March 31), commencing with the report for the Fiscal Year ending September 30, 2008 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events with respect to the Taxable 2008 Series A Bonds, if material. The Annual Report will be filed by or on behalf of the City with each Nationally Recognized Municipal Securities Information Repository (“NRMSIR”) in existence at the date of such filing and with the State Information Depository, if any, established by the State of Florida (the “SID”). (No SID currently exists for the State of Florida.) The notices of such material events will be filed by or on behalf of the City with each NRMSIR in existence at the date of such filing and with the Municipal Securities Rulemaking Board (and with such SID, if any). The Continuing Disclosure Certificate also provides that filings required under such Certificate may be made by transmitting filings to the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the form of the Continuing Disclosure Certificate attached hereto as APPENDIX F. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

As provided in the Continuing Disclosure Certificate, if the City fails to comply with any provision of the Continuing Disclosure Certificate, the remedies of any Holder or “Beneficial Owner” of the Taxable 2008 Series A Bonds are limited to taking such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under the Continuing Disclosure Certificate. “Beneficial Owner” is defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in Taxable 2008 Series A Bonds through nominees or depositories (including any person holding such interest through the book-entry-only system of The Depository Trust Company (“DTC”)). IF ANY PERSON SEEKS TO CAUSE THE CITY TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE CERTIFICATE, IT IS THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A “BENEFICIAL OWNER” WITHIN THE MEANING OF THE CONTINUING DISCLOSURE CERTIFICATE.

Forward-Looking Statements and Associated Risks

This Official Statement contains forward-looking statements, including statements regarding, among other items, (a) anticipated trends in the System’s business and (b) the System’s future liquidity requirements and capital additions and financing plans. These forward-looking statements are based on, among other things, the City’s expectations, and are subject to a number of risks and uncertainties, certain of which are beyond the City’s control. Actual results could differ materially from those anticipated by these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that events anticipated by the forward-looking statements contained in this Official Statement will in fact transpire.

PLAN OF FINANCE

The Taxable 2008 Series A Bonds will be issued (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the Taxable 2008 Series A Bonds. The Taxable 2008 Series A Bonds will primarily be used to provide funds for the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. See "FACTORS AFFECTING THE UTILITY INDUSTRY" herein.

Concurrently with the issuance of the Taxable 2008 Series A Bonds the City expects to issue \$[90,000,000] in aggregate principal amount of tax-exempt variable rate Bonds (the "Tax-Exempt 2008 Series B Bonds"). The Tax-Exempt 2008 Series B Bonds will be issued (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, including the construction of a combined heat and power facility and to allow the City to meet Florida's Total Maximum Daily Load regulations adopted by the Florida Department of Environmental Protection Florida Department of Environmental Protection ("FDEP") and (b) to pay costs of issuance of the Tax-Exempt 2008 Series B Bonds. See "THE ELECTRIC SYSTEM" and "THE WASTEWATER SYSTEM" herein.

For a discussion of the City's additional financing requirements for the System, see "ADDITIONAL FINANCING REQUIREMENTS" herein.

In anticipation of the issuance of the Tax-Exempt 2008 Series B Bonds, in October 2006, the City entered into two separate forward-starting floating-to-fixed rate interest rate swap transactions of \$58,500,000 and \$31,500,000 (collectively, the "2008 Floating-to-Fixed Swap Transactions"), one with a counterparty with a counterparty risk rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P and the other with a counterparty with a counterparty credit rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P. Each 2008 Floating-to-Fixed Swap Transaction has an effective date that corresponds to the expected date of issuance of the Tax-Exempt 2008 Series B Bonds. The term of each 2008 Floating-to-Fixed Swap Transaction is identical to the anticipated term of the Tax-Exempt 2008 Series B Bonds, and the aggregate notional amounts of the 2008 Floating-to-Fixed Swap Transactions will amortize at the same times and in the same amounts as the Tax-Exempt 2008 Series B Bonds are expected to be amortized. Each 2008 Floating-to-Fixed Swap Transaction is subject to termination by the City or the respective counterparty at certain times and under certain conditions. During the term of each 2008 Floating-to-Fixed Swap Transaction, the City will pay to the respective counterparty a fixed rate of 4.222% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index.

Simultaneously with the issuance of the Tax-Exempt 2008 Series B Bonds, the City intends to designate each 2008 Floating-to-Fixed Swap Transaction as a "Qualified Hedging Contract" within the meaning of the Resolution, and to provide (a) that net payments owed by it under such 2008 Floating-to-Fixed Swap Transaction will constitute a "Parity Hedging Contract Obligation," secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by the Resolution to secure the Bonds and (b) that any termination payments owed by it under such 2008 Floating-to-Fixed Swap Transaction will constitute a "Subordinated Hedging Contract Obligation," secured by a pledge and assignment of the Subordinated Indebtedness Fund on a basis that is subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and assignment thereof securing Subordinated Indebtedness. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX C hereto.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Taxable 2008 Series A Bonds are estimated to be as follows:

Sources of Funds

Principal Amount of Taxable 2008 Series A Bonds.....	\$
Plus Original Issue Premium (net of Discount).....	_____
Total Sources	\$ _____

Uses of Funds

Deposit to Construction Fund*.....	\$
Payment of costs of issuance, including underwriters' discount and bond insurance premium, if applicable	_____
Total Uses	\$ _____

* Deposit to pay for costs of acquisition and construction of the System.

OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2007.

Outstanding Debt of the City Issued for the System

	As of October 1, 2007		
Description	Interest Rates	Due Dates (October 1)	Principal Outstanding ⁽¹⁾
Utilities System Revenue Bonds			
Series 1983.....	6.00%	2014	\$ 4,675,000
1992 Series B.....	6.50 – 7.50%	2008-2013	24,630,000
1996 Series A.....	5.75%	2008-2009	7,720,000
2003 Series A.....	4.625 – 5.25%	2015-2033	7,525,000
2003 Series B (federally taxable).....	4.40%	2013	4,960,000
2003 Series C.....	2.75 – 5.00%	2008-2013	85,380,000
2005 Series A.....	4.75 – 5.00%	2021-2036	91,820,000
2005 Series B (federally taxable).....	5.14 – 5.31% ⁽²⁾⁽³⁾	2015-2021	60,840,000
2005 Series C.....	Variable ⁽²⁾⁽⁴⁾	2026	55,135,000
2006 Series A.....	Variable ⁽²⁾⁽⁵⁾	2026	53,305,000
2007 Series A.....	Variable ⁽²⁾⁽⁶⁾	2036	139,505,000
Total Utilities System Revenue Bonds			\$535,495,000
Subordinated Utilities System Revenue Bonds			
2002 Series A.....	Variable ⁽²⁾⁽⁷⁾	2017	\$22,000,000
2002 Series B.....	Variable	2032	40,000,000
Total Subordinated Bonds			\$62,000,000

(footnotes begin on following page)

- (1) Principal Outstanding excludes the Taxable 2008 Series A Bonds and the Tax-Exempt 2008 Series B Bonds (as defined herein).
- (2) See Note 4 to the audited financial statements for the fiscal years ended September 30, 2007 and 2006 included as APPENDIX A to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.
- (3) The City has entered into a floating-to-floating rate interest rate swap transaction with respect to a pro rata portion of each of the maturities of the 2005 Series B Bonds (the "2005 Series B Swap Transaction"). The initial notional amount of the 2005 Series B Swap Transaction is \$45,000,000, which corresponds to approximately 73.1% of the principal amount of each maturity of the 2005 Series B Bonds. The counterparty to the 2005 Series B Swap transaction currently has a counterparty risk rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P. The term of the 2005 Series B Swap Transaction is identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction will amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it relates. The 2005 Series B Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series B Swap Transaction, the City will pay to the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index) and will receive from the counterparty a rate equal to 77.14% of the 1-month LIBOR rate. The effect of the 2005 Series B Swap Transaction is to convert synthetically the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX C hereto).
- (4) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2005 Series C Bonds (the "2005 Series C Swap Transaction"). The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P. The term of the 2005 Series C Swap Transaction is identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction will amortize at the same times and in the same amounts as the 2005 Series C Bonds. The 2005 Series C Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series C Swap Transaction, the City will pay to the counterparty a fixed rate of 3.20% per annum and will receive from the counterparty a rate equal to 60.36% of the 10-year LIBOR swap rate. The effect of the 2005 Series C Swap Transaction is to fix synthetically the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX C hereto).
- (5) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2006 Series A Bonds (the "2006 Series A Swap Transaction"). The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of "Aaa" from Moody's and a counterparty credit rating of "AAA" from S&P. The term of the 2006 Series A Swap Transaction is identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2006 Series A Bonds. The 2006 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the 10-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction is to fix synthetically the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX C hereto).
- (6) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2007 Series A Bonds (the "2007 Series A Swap Transaction"). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of "Aaa" from Moody's and a financial program rating of "AAA" from S&P. The term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to fix synthetically the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX C hereto).
- (7) The City has entered into a floating-to-fixed rate interest rate Swap transaction with respect to the 2002 Series A Subordinated Bonds (the "2002 Series A Swap Transaction"). The counterparty to the 2002 Series A Swap Transaction currently has a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "AA-" from S&P. The term of the 2002 Series A Swap Transaction is identical to the term of the 2002 Series A Subordinated Bonds, and the notional amount of the 2002 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2002 Series A Subordinated Bonds. The 2002 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2002 Series A Swap transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2002 Series A Swap Transaction is to fix synthetically the interest rate on the 2002 Series A Subordinated Bonds at a rate of approximately 4.10% per annum. The City has not designated the 2002 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX C hereto), so all amounts owed by the City under the 2002 Series A Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program, as shown in the table below, requires a total of approximately \$596,043,000 in capital expenditures and \$9,066,000 for issuance costs between 2008 and 2013, inclusive, for total capital improvement program costs of \$605,109,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$453,000,000 of future additional Bonds, including the Taxable 2008 Series A Bonds and the Tax-Exempt 2008 Series B Bonds, and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects to issue in 2008, 2009, 2011, and 2013. The ongoing and planned projects included in the capital improvement program are discussed in further detail herein for the electric, natural gas, water, wastewater and telecommunications systems, respectively.

Summary of Capital Improvement Program

	Fiscal Years ending September 30,						2008-2013
	2008	2009	2010	2011	2012	2013	
Cash Balance October 1,	\$ 62,444,000	\$ 97,183,000	\$86,974,000	\$ 3,325,000	\$57,604,000	\$ 2,162,000	\$309,692,000
Source of Funds:							
Bond Financing	205,000,000	104,000,000		55,400,000		88,900,000	453,300,000
Revenues	28,246,000	23,200,000		55,415,000		71,685,000	178,546,000
Other Financing Sources		5,318,000	6,415,000			-	11,733,000
Interest Earnings	3,556,000	1,317,000	27,000	1,285,000	30,000	3,305,000	9,520,000
Total Sources	\$299,246,000	\$ 231,018,000	\$93,416,000	\$115,425,000	\$57,634,000	\$166,052,000	\$653,099,000
Use of Funds:							
Construction Projects:							
Electric	\$154,931,000	\$97,812,000	\$47,958,000	\$31,347,000	\$26,402,000	\$24,415,000	\$382,865,000
Gas	5,287,000	11,669,000	12,917,000	4,002,000	4,091,000	4,249,000	42,215,000
Water	10,106,000	12,072,000	9,807,000	7,896,000	7,998,000	8,478,000	56,357,000
Wastewater	18,812,000	14,981,000	16,012,000	9,128,000	11,403,000	10,829,000	81,165,000
GRUCom	8,827,000	5,430,000	3,397,000	4,340,000	5,578,000	5,869,000	33,441,000
Total Construction	\$197,963,000	\$141,964,000	\$90,091,000	\$56,713,000	\$55,472,000	\$53,840,000	\$596,043,000
Issuance Costs	4,100,000	2,080,000	-	1,108,000	-	1,778,000	9,066,000
Total Uses	\$202,063,000	\$144,044,000	\$90,091,000	\$57,821,000	\$55,472,000	\$55,618,000	\$605,109,000
Cash Balance September 30,	\$ 97,183,000	\$ 86,974,000	\$ 3,325,000	\$57,604,000	\$ 2,162,000	\$110,434,000	\$357,682,000

SECURITY FOR THE BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the Taxable 2008 Series A Bonds, are direct and special obligations of the City payable solely from and secured as to the payment of the principal and premium, if any, and interest thereon, in accordance with their terms and the provisions of the Resolution by (i) proceeds of the sale of the Taxable 2008 Series A Bonds, (ii) Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Fund which secures only certain designated Series of Bonds and any fund which may be established pursuant to the Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof (collectively, the "Trust Estate"), and the Trust Estate is pledged and assigned to

the Trustee for the benefit of the holders of the Bonds subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

The Taxable 2008 Series A Bonds do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No holder of the Taxable 2008 Series A Bonds will have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the Taxable 2008 Series A Bonds or the making of any payments under the Resolution. The Taxable 2008 Series A Bonds and the obligations evidenced thereby do not constitute a lien on any property of or in the City, other than the Trust Estate. The City may issue, pursuant to the Resolution, additional Bonds on a parity basis with the Taxable 2008 Series A Bonds. See "ADDITIONAL FINANCING REQUIREMENTS" herein for a discussion of the City's present intentions with respect to the issuance of additional Bonds.

Rate Covenant

The City has covenanted in the Resolution that it will at all times use its best efforts to operate the System properly and in an efficient and economical manner and will at all times establish and collect rates, fees and other charges for the use or the sale of the output, capacity or services of the System so that the Revenues of the System are expected to yield Net Revenues which shall be equal to at least 1.25 times the Aggregate Debt Service for the forthcoming 12-month period. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Rate Covenant" in APPENDIX C hereto.

Additional Bonds; Conditions to Issuance

The City may issue additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System or for the purpose of refunding outstanding Bonds. All Series of such Bonds will be payable from the same sources and secured on a parity with all other Series of Bonds. Set forth below are certain conditions applicable to the issuance of additional Bonds.

Historical Debt Service Coverage. The issuance of any Series of additional Bonds (except for Refunding Bonds) is conditioned upon the delivery by an Authorized Officer of the City of a certificate to the effect that, for any period of 12 consecutive months within the 18 months preceding the issuance of Bonds of such Series, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such period in respect of the then outstanding Bonds.

Projected Debt Service Coverage. The issuance of any Series of additional Bonds (except for Refunding Bonds) is further conditioned upon the delivery by the City of a certificate of an Authorized Officer of the City to the effect that, for each Fiscal Year in the period beginning with the year in which the additional Series of Bonds is to be issued and ending on the later of the fifth full Fiscal Year thereafter or the first full Fiscal Year in which less than 10% of the interest coming due on Bonds then to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the Aggregate Debt Service for each such Fiscal Year. For purposes of estimating future Net Revenues, the City may base its estimate upon such factors as it shall consider reasonable.

No Default. In addition, additional Bonds (except for Refunding Bonds) may be issued only if the City certifies that no Event of Default exists under the Resolution or that any such Event of Default will be cured through application of the proceeds of such Bonds.

Subordinated Indebtedness. The City may also issue Subordinated Indebtedness under the Resolution without compliance with any of the above conditions. References herein and in the Resolution to Bonds do not include such Subordinated Indebtedness.

Flow of Funds Under the Resolution

The City has covenanted to deposit all Revenues of the System to the credit of the Revenue Fund. Each month, the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. After such payment, the City is to pay from the Revenue Fund, in the following order of priority, amounts, if any, budgeted or otherwise necessary for the Rate Stabilization Fund, amounts required for the Debt Service Account in the Debt Service Fund and amounts, if any, required for credit to any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund for a particular Series of Bonds, amounts, if any, required for the Subordinated Indebtedness Fund, and amounts to be deposited in the Utilities Plant Improvement Fund. The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any other lawful purpose, provided that all current payments have been made and the City has otherwise fully complied with the Resolution. All amounts held in any Funds under the Resolution are subject to being invested in Investment Securities; such investments will be valued at the amortized cost thereof.

For a more extensive discussion of the terms and provisions of the Resolution, the levels at which the funds and accounts established thereby are to be maintained and the purposes to which moneys in such funds and accounts may be applied, see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX C hereto.

THE TAXABLE 2008 SERIES A BONDS

General

The Taxable 2008 Series A Bonds will be issued in the aggregate principal amount of \$000,000,000*. The Taxable 2008 Series A Bonds will be dated the date of delivery thereof, will bear interest from their date of delivery at the rates per annum set forth on the inside cover page of this Official Statement payable on October 1 and April 1 of each year, commencing April 1, 2008, and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The Taxable 2008 Series A Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as nominee for DTC. See "Book-Entry Only System" below.

Redemption Provisions

Optional Redemption. The Taxable 2008 Series A Bonds will be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2008 Series A Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2008 Series A Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Taxable 2008 Series A Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (defined below) plus ___ basis points. The term "Treasury Rate" is defined in the [Nineteenth] Supplemental Resolution to mean, with respect to any redemption date for a particular Taxable 2008 Series A Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on

the redemption date for a price equal to the Comparable Treasury Price. Additional relevant terms are defined as follows:

“Comparable Treasury Issue” means the U.S. Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Taxable 2008 Series A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of such Taxable 2008 Series A Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Taxable 2008 Series A Bond, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (b) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the City.

“Reference Treasury Dealer” means Goldman, Sachs & Co. and its successors and three other firms, specified by the City from time to time, that are primary U.S. Government securities dealers in the City of New York (each a “Primary Treasury Dealer”); *provided, however*, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Taxable 2008 Series A Bond, the average, as determined by the Independent Investment Banker and communicated to the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the tenth (10th) day (or, if such day is not a business day, the next preceding business day) preceding such redemption date.

If less than all of the Taxable 2008 Series A Bonds are to be so redeemed, the City may select the maturity or maturities to be redeemed. If less than all of the Taxable 2008 Series A Bonds of any maturity are to be redeemed, the particular Taxable 2008 Series A Bonds or portions of such Bonds of such maturity to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any Taxable 2008 Series A Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, and in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of such Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

So long as a book-entry system is used for determining ownership of the Taxable 2008 Series A Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the Taxable 2008 Series A Bonds of a maturity are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants (as such terms are defined under “Book-Entry Only System” below) will determine the particular ownership interests of Taxable 2008 Series A Bonds of such maturity to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a Taxable 2008 Series A Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the Taxable 2008 Series A Bonds. Neither the City

nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the Taxable 2008 Series A Bonds, or that they will do so on a timely basis.

Sinking Fund Redemption. The Taxable 2008 Series A Bonds maturing October 1, 20 * will be subject to redemption through mandatory sinking fund installments on October 1 in the years and in the amounts shown below, at a redemption price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date:

<u>Year*</u>	<u>Amount*</u>	<u>20 * Maturity</u>	<u>Year*</u>	<u>Amount*</u>
†				
† final maturity				

Taking into consideration the sinking fund redemptions set forth above, the average life of the Taxable 2008 Series A Bonds maturing October 1, 20 *, calculated from the date of delivery of such Bonds, is approximately ___ years.

The particular Taxable 2008 Series A Bonds maturing October 1, 20 * or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described above under “*Optional Redemption.*” So long as a book-entry system is used for determining ownership of the Taxable 2008 Series A Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of Taxable 2008 Series A Bonds maturing October 1, 20 * to be redeemed through mandatory sinking fund installments.

In determining the amount of Taxable 2008 Series A Bonds maturing October 1, 20 * to be redeemed with any sinking fund installment, there will be deducted the principal amount of any Taxable 2008 Series A Bonds of such maturity which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account (exclusive of amounts deposited from proceeds of Bonds). In addition, in the event that any Taxable 2008 Series A Bonds maturing October 1, 20 * are purchased or redeemed other than with moneys in the Debt Service Account, such Taxable 2008 Series A Bonds maturing October 1, 20 * so purchased or redeemed will be credited against the sinking fund installments for the Taxable 2008 Series A Bonds maturing October 1, 20 *, as applicable, thereafter to become due as follows: there will be credited toward each such sinking fund installment thereafter to become due an amount bearing the same ratio to such sinking fund installment as the total principal amount of such Taxable 2008 Series A Bonds maturing October 1, 20 *, as applicable, so purchased or redeemed bears to the total amount of all such sinking fund installments to be credited, subject to authorized denominations for the Taxable 2008 Series A Bonds.

* Preliminary, subject to change.

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the Taxable 2008 Series A Bonds not less than 30 days nor more than 60 days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the Taxable 2008 Series A Bonds to be redeemed. The failure of the Trustee to give notice by mail, or any defect in such notice, to the holder of any Taxable 2008 Series A Bond will not affect the validity of the proceedings for the redemption of any other Taxable 2008 Series A Bond. Notice having been given in the manner provided in the Resolution, on the redemption date so designated, (a) unless such notice has been revoked or ceases to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the Taxable 2008 Series A Bond or portions thereof so called for redemption will become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to the redemption date. So long as a book-entry system is used for determining ownership of the Taxable 2008 Series A Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the Taxable 2008 Series A Bonds of a maturity are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of Taxable 2008 Series A Bonds, of such maturity to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a Taxable 2008 Series A Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the Taxable 2008 Series A Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the Taxable 2008 Series A Bonds, or that they will do so on a timely basis.

Registration and Transfer; Payment

The Taxable 2008 Series A Bonds may be transferred only on the books of the City held at the principal corporate trust office of the Trustee, as Bond Registrar. Neither the City nor the Bond Registrar will be required to transfer or exchange Taxable 2008 Series A Bonds (a) for a period beginning with the applicable Record Date (as hereinafter defined) and ending with the next succeeding October 1 or April 1, as applicable, or (b) for a period beginning with a date selected by the Trustee not more than 15 nor less than 10 days prior to a date fixed for the payment of any interest which, at the time, is payable, but has not been punctually paid or duly provided for, and ending with the date fixed for such payment. Interest on any Taxable 2008 Series A Bonds will be paid to the person in whose name such Bond is registered on the applicable Record Date, which is March 15 for interest due on April 1 and September 15 for interest due on October 1. At such time, if any, as the Taxable 2008 Series A Bonds no longer shall be subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" below, interest on the Taxable 2008 Series A Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail. At such time, if any, as the Taxable 2008 Series A Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all Taxable 2008 Series A Bonds will be payable on the date of maturity or redemption or acceleration thereof upon presentation and surrender at the principal corporate trust office of the Paying Agent.

For so long as a book-entry system is used for determining beneficial ownership of the Taxable 2008 Series A Bonds, such principal and interest shall be payable to DTC or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the Taxable 2008 Series A Bonds is the responsibility of the Direct Participants or the Indirect Participants.

Book-Entry Only System

The Taxable 2008 Series A Bonds will be available only in book entry form. DTC will act as the initial securities depository for the Taxable 2008 Series A Bonds. The Taxable 2008 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued in the aggregate principal amount of each maturity of the Taxable 2008 Series A Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Taxable 2008 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Taxable 2008 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each Taxable 2008 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Taxable 2008 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Taxable 2008 Series A Bonds, except in the event that use of the book-entry system for the Taxable 2008 Series A Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE TAXABLE 2008 SERIES A BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE TAXABLE 2008 SERIES A BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all Taxable 2008 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Taxable 2008 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Taxable 2008 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The City, the Trustee, the Bond Registrar and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the Taxable 2008 Series A Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the Taxable 2008 Series A Bonds; selecting Taxable 2008 Series A Bonds and portions thereof to be redeemed; giving any notice permitted or required to be given to Holders under the Resolution including any notice of redemption; registering the transfer of Taxable 2008 Series A Bonds; obtaining any consent or other action to be taken by Holders; and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The City, the Trustee, the Bond Registrar, the Paying Agent and the Underwriter (other than in its capacity, if any, as a Direct Participant or an Indirect Participant) shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the Taxable 2008 Series A Bonds under or through DTC or any Direct Participant, or any other person which is not shown on the registration books of the City (kept by the Bond Registrar) as being a Holder, with respect to: the accuracy of any records maintained by DTC or any Direct or Indirect Participant regarding ownership interests in the Taxable 2008 Series A Bonds; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal or redemption price of or interest on the Taxable 2008 Series A Bonds; the delivery to any Direct or Indirect Participant or any Beneficial Owner of any notice which is permitted or required to be given to Holders under the Resolution including any notice of redemption; the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the Taxable 2008 Series A Bonds; or any consent given or other action taken by DTC as a Holder of the Taxable 2008 Series A Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Taxable 2008 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the "record date." The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities, such as the Taxable 2008 Series A Bonds, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Except as described below, neither DTC nor Cede & Co. nor any other nominee of DTC will take any action to enforce covenants with respect to any security registered in the name of Cede & Co. or such other nominee of DTC. Under its current procedures, on the written instructions of a Direct Participant given in accordance with DTC's Procedures, DTC will cause Cede & Co. to sign a demand to exercise certain bondholder rights. In accordance with DTC's current procedures, Cede & Co. will sign such document only as record holder of the quantity of securities referred to therein (which is to be specified in the Direct Participant's request to DTC for such document) and not as record holder of all the securities of that issue registered in the name of Cede & Co. Also, in accordance with DTC's current procedures, all factual representations to the issuer, the trustee or any other party to be made by Cede & Co. in such document must be made to DTC and Cede & Co. by the Direct Participant in its request to DTC.

For so long as the Taxable 2008 Series A Bonds are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the City or the Trustee to comply with any of its obligations with respect to the Taxable 2008 Series A Bonds must make arrangements with the Direct

Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the Taxable 2008 Series A Bonds is recorded in order for the Direct Participant in whose DTC account such ownership interest is recorded to make the request of DTC described above.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITER (OTHER THAN IN ITS CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE TAXABLE 2008 SERIES A BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal or redemption price of and interest on the Taxable 2008 Series A Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City, the Trustee or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, the Trustee or the Paying Agent, as the case may be, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

As long as the book entry system is used for the Taxable 2008 Series A Bonds, the City or the Trustee, as applicable, will give or cause to be given any notice of redemption or any other notices required to be given to Holders of Taxable 2008 Series A Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Taxable 2008 Series A Bonds called for such redemption, or of any other action premised on such notice.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Taxable 2008 Series A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Taxable 2008 Series A Bonds such as redemptions, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of the Taxable 2008 Series A Bonds may wish to ascertain that the nominee holding the Taxable 2008 Series A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

As long as the book entry system is used for the Taxable 2008 Series A Bonds, redemption notices shall be sent only to DTC. If less than all of the Taxable 2008 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Taxable 2008 Series A Bonds, as applicable, to be redeemed.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITER (OTHER THAN IN THEIR CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

Discontinuation of the Book Entry-Only System. DTC may discontinue providing its services as depository with respect to the Taxable 2008 Series A Bonds at any time by giving reasonable notice to the City or the Trustee. In addition, if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the Taxable 2008 Series A Bonds, or (ii) continuation of the system of book entry-only transfers through DTC is not in the best interests of the Beneficial Owners of the Taxable 2008 Series A Bonds or of the City, the City may, upon satisfaction of the applicable procedures of DTC with respect thereto, terminate the services of DTC with respect to the Taxable 2008 Series A Bonds. Upon the resignation of DTC or determination by the City that DTC is unable to discharge its responsibilities, the City may, within 90 days, appoint a successor depository. If no such successor is appointed or the City determines to discontinue the book-entry-only system, Taxable 2008 Series A Bond certificates will be printed and delivered. Transfers and exchanges of Taxable 2008 Series A Bonds shall thereafter be made as provided in the Resolution.

If the book entry-only system is discontinued, the persons to whom Taxable 2008 Series A Bond certificates are delivered will be treated as “Holders” of Bonds for all purposes of the Resolution including without limitation the payment of principal, premium, if any, and interest on Taxable 2008 Series A Bonds, the redemption of Taxable 2008 Series A Bonds, and the giving to the City or the Trustee of any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, interest on the Taxable 2008 Series A Bonds will be payable by check or draft of the Paying Agent mailed to such Holders at the addresses shown on the registration books maintained on behalf of the City (or, to the extent permitted by the Resolution, by wire transfer (see “General” above)), and the principal and redemption price of all Taxable 2008 Series A Bonds will be payable at the principal corporate trust office of the Paying Agent.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the City believes to be reliable. No representation is made herein by the City or the Underwriter as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.

MUNICIPAL BOND INSURANCE

[TBD]

THE CITY

General

Gainesville, home of the University of Florida, is located in north-central Florida midway between Florida’s Gulf and Atlantic coasts. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2006 population of 247,528 in the Gainesville Metropolitan Statistical Area. As of April 2007, an estimated 122,671 persons resided within the City limits. The economic base of Gainesville consists primarily of light

industrial, commercial, health care and educational activities. The University of Florida is the State's largest and oldest state-owned university. Fall 2007 enrollment at the University of Florida was approximately 51,600 students.

For additional information with respect to the City and the County, see APPENDIX B hereto.

Government

The City is governed by a City Commission (the "City Commission") that currently consists of seven members. Four are elected from single member districts and three are elected Citywide. The Mayor is elected by the residents of Gainesville.

The following are the current members of the City Commission:

	<u>Term Expires</u>
Mayor Pegeen Hanrahan, At-large.....	May 2010
Commissioner Stuart Craig Lowe, District 4, Mayor Pro-Tem	May 2010
Commissioner Edward B. Braddy, District 2.....	May 2008
Commissioner Richard J. Bryant, At-large	May 2008
Commissioner John F. Donovan, District 3	May 2008
Commissioner Scherwin L. Henry, District 1	May 2009
Commissioner Jeanna Mastrodicasa, At-large	May 2009

[TO BE UPDATED] The City Commission appoints a General Manager for Utilities who is responsible for the overall administration of the utilities system.

THE UTILITIES SYSTEM

General

Under its home rule powers and pursuant to the Charter, the City owns and operates the System, which provides the City and certain unincorporated areas of the County with electric, natural gas, water, wastewater, and telecommunications service. Natural gas service is also provided to retail customers within the corporate limits of the City of Alachua, Florida ("Alachua"). All facilities of the System are owned by the City, and all facilities, except the City's undivided ownership interest in CR-3, are operated by the City. The System is governed by the City Commission.

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 89,912 customers in the fiscal year ended September 30, 2007 and having a maximum net summer generating capacity of 611 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 33,125 customers in the fiscal year ended September 30, 2007.

The water and wastewater systems were established in 1891 to provide water and wastewater service to the City. The water and wastewater systems served an average of 67,774 and 62,005 customers, respectively, in the fiscal year ended September 30, 2007. The water system has a nominal capacity of 54 Mgd and the wastewater system has a treatment capacity of 22.4 Mgd AADF.

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business opportunities. GRUCom operates a state-of-the art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services.

Management of the System

Ms. Karen S. Johnson, General Manager for Utilities, was appointed General Manager in February 2007. Ms. Johnson was appointed Interim General Manager in March 2006. Previously, Ms. Johnson served as Assistant General Manager-Customer and Administrative Services since 1991. Ms. Johnson served as Interim City Manager for the City from March 1994 through July 1995 and formerly served as the Assistant City Manager for the City prior to her appointment as Assistant General Manager-Customer and Administrative Services.

In addition to the General Manager for Utilities, the System's executive team includes five Assistant General Managers, the Chief Financial Officer and the Utilities Attorney. The five Assistant General Managers consist of: Energy Supply; Energy Delivery; Water and Wastewater Systems; Strategic Planning; and Customer Support Services. The following paragraphs describe the other members of the System's executive team and their backgrounds:

Ms. Karen C. Alford, Interim Assistant General Manager-Energy Supply, joined the System in 1979. She was previously responsible for managing the Fuels operations for the System, which includes contract negotiation and administration, acquisition of fuel commodities and transportation, fuel accounting, inventory, forecasting and risk management. Ms. Alford oversees construction, operation and maintenance of the System's electric generating plants and is responsible for power engineering and fuels management.

Mr. David E. Beaulieu, P.E., Assistant General Manager-Energy Delivery, was appointed in November 1996. Mr. Beaulieu joined the System in 1988 and formerly served as Electric Engineering Manager. Mr. Beaulieu oversees the construction, operation and maintenance of the System's electric transmission and distribution facilities, as well as the natural gas distribution facilities, and is also responsible for operations engineering, system control, substations and relay, and electric and gas metering.

Mr. David M. Richardson, P.E., Assistant General Manager-Water and Wastewater Systems, was appointed in May 2005. Mr. Richardson was formerly responsible for system planning and long range water and wastewater facility planning. He joined the System in January 1986. Mr. Richardson oversees the construction, operation and maintenance of the System's water and wastewater treatment plants and the associated distribution and collection facilities, and is responsible for water and wastewater engineering.

Ms. Jennifer L. Hunt, CPA, Chief Financial Officer, Utilities, was appointed in August 2004. She joined the System in May 2000 and formerly served as the Managing Utility Analyst for Finance. Ms. Hunt oversees the financial affairs of the System and is responsible for budgeting, debt and investment management, accounting, customer accounts functions, and information technology. She also represents the System on the Finance and Audit Committee of The Energy Authority, Inc. ("TEA").

Mr. Edward J. Regan, P.E., Assistant General Manager-Strategic Planning, was appointed in December 1990. Mr. Regan joined the System in 1979 and was appointed Senior Water/Wastewater Utility Engineer in October 1984. Mr. Regan oversees system planning, electric system regulatory

affairs, generation dispatch and wholesale power contract management. The system planning division is responsible for long range planning of the System, including special projects and large cross-functional construction projects, demand side planning, financial planning, facilities planning, industrial, power supply planning and systems engineering, and environmental planning and compliance. Mr. Regan also represents the System on the Settlement and Operations Committee of TEA, the Board of Directors of the Florida Municipal Electric Authority and the Florida Reliability Coordinating Council.

Mr. Raymond O. Manasco, Jr., Esquire, Utilities Attorney, joined the City in April 1989, and was appointed Utilities Attorney in January 1990. Mr. Manasco was formerly in private practice in Lake City, Florida for twelve years, during which he represented the City of Lake City for ten years. Mr. Manasco reviews and negotiates contracts for the purchase, sale and exchange of electric power, provides daily legal counsel, and represents the System before the courts and administrative bodies.

Ms. Kathy E. Viehe, Assistant General Manager – Customer Support Services, was appointed in February 2007. Ms. Viehe formerly served as Public Information Officer for Fort Pierce Utilities Authority, and joined the System as Communications Director in 1996. Ms. Viehe is responsible for conservation services, large account management, marketing, corporate communications, public relations, and customer operations.

Labor Relations

The System presently employs approximately 825 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 620 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). The City's collective bargaining agreement with the CWA expires on December 31, 2009. Currently, there are no outstanding charges of unfair labor practices filed by the CWA against the City with the Florida Public Employees Labor Relations Commission. Management of the System believes that the City's labor relations with respect to the System are excellent.

Permits, Licenses and Approvals

Management of the System believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management of the System further believes that the System is operating in compliance in all material respects with all such permits, licenses and approvals and with all applicable federal, state and local regulations, codes, standards and laws.

THE ELECTRIC SYSTEM

Service Area

The System provides retail electric service to consumers in the Gainesville urban area which includes the City and the surrounding unincorporated area. Wholesale electric service is provided to two wholesale customers: Seminole Electric Cooperative, Inc. ("Seminole") and the City of Alachua ("Alachua"). See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124 square miles of the County, and approximately 79% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by PEF. Electric service is also provided in the unincorporated areas of the County by PEF, Clay Electric Cooperative ("Clay"), Florida Power & Light Company ("FPL"), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order

to clearly delineate, for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement extends through 2017 and has been approved by the Florida Public Service Commission (“FPSC”).

Customers

Gainesville’s economy is dominated by governmental, educational, and medical services supporting an eleven county area of north central Florida. As a consequence, the System has experienced steady growth in customers and sales. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2003 through 2007.

	Fiscal Years ended September 30,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Retail Customers (Average):					
Residential	74,164	76,435	77,918	79,125	80,237
Commercial and Industrial.....	<u>8,912</u>	<u>9,203</u>	<u>9,342</u>	<u>9,538</u>	<u>9,675</u>
Total	<u>83,076</u>	<u>85,638</u>	<u>87,260</u>	<u>88,663</u>	<u>89,912</u>

Of the 89,912 customers in the fiscal year ended September 30, 2007, the 9,675 commercial and industrial customers provided approximately 51% of revenues from retail energy sales. The ten largest retail users of electric energy of the System in the fiscal year ended September 30, 2007 (excluding general government functions of the City), in total, represented only 6.2% of retail energy sales revenues and only 5.8% of all energy sales revenues. The single largest retail customer represents only 1.4% of total revenue.

Energy Sales

The Energy Authority

TEA is a Georgia nonprofit corporation founded by publicly owned utilities in 1997 to maximize the value of their generation and energy resources in a competitive wholesale market. The System became an equity member of TEA on May 1, 2000. Other equity members include City Utilities of Springfield, Missouri, JEA, the Municipal Electric Authority of Georgia, Nebraska Public Power District, and South Carolina Public Service Authority. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States. The total capacity owned by TEA equity members and resource management partners is 18,700 MW, including power contracts, and the total resources managed by TEA is approximately 25,000 MW. TEA manages a diverse generation portfolio, of which approximately 73% is coal, petroleum coke, nuclear, or hydro power, and the volume of capacity represented has proven advantageous in terms of market presence. TEA’s operations include the purchase and sale of power, transmission capacity acquisition and scheduling, natural gas and oil purchase and transportation, and financial trading and hedging under strictly observed risk policies.

Other than for retail load and several pre-existing bi-lateral long-term wholesale power agreements, TEA markets the System’s generating resources in the real-time, day-ahead, and longer-term power markets. TEA also purchases all the System’s natural gas and manages the System’s gas transportation entitlements. TEA’s ability to find the best markets for the purchase and sale of power and excess natural gas transportation entitlements maximizes the efficient use of generation assets, reduces operating costs and increases operating revenues of the System. TEA’s ability to execute energy transactions on behalf of the System includes arranging for any transmission services required to accommodate such transactions. Each transaction is accomplished through the execution of a letter of commitment between the System and TEA for a specific capacity amount and duration, and with negotiated terms and prices. Examples of these power sales include short-term, emergency and economy

sales, ranging from a period of months to a single hour. TEA also executes and manages financial hedges for its members, primarily in the form of NYMEX natural gas futures and options. TEA constantly monitors the credit of counterparties and manages credit security requirements on behalf of the System as well as other TEA members. TEA operates electrical, gas, and financial trading desks on a 24 hour per day, seven days a week basis with a market presence that the System or any of the other TEA members would be very unlikely to attain on its own.

TEA settles the transactions it makes for its members under terms set forth in settlement procedures adopted by its Board of Directors. The excess (or deficiency) of TEA's revenues over (or under) its costs also are allocated among its members pursuant to such procedures. For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2006, see Note 15 to the financial statements of the System set forth in APPENDIX A attached hereto. See also "Energy Supply System – *Fuel Supply – Natural Gas*" below for additional discussion of TEA's role in supplying natural gas for the System.

Retail and Wholesale Sales

In the fiscal year ended September 30, 2007, the System sold 2,041,022 megawatt hours ("MWh") of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has two firm wholesale sales contracts, both of which are "all requirements" contracts with Seminole and Alachua. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. Total energy sales to these customers have had an average annual rate of growth of 5.3% per year from the fiscal year ended September 30, 2003 through the fiscal year ended September 30, 2007. Year to year variability is due primarily to the effects of weather on heating and cooling loads. The following table shows the System's sales in MWh and average use of electricity, in kWh, by customer class, for the fiscal years ended September 30, 2003 through 2007. For the fiscal year ended September 30, 2007, there was a 2.6% decrease in residential MWh sales from the fiscal year ended September 30, 2006. This decrease is the result of successful conservation programs and mild weather.

The System has had a wholesale electric service contract with Seminole to serve to a Clay substation adjacent to the west side of the System's service area since 1975 which extends through March 2012. The System sold 74,834 MWh to Seminole in the fiscal year ended September 30, 2007 and collected \$4,986,593 in revenues from those sales, which represents approximately 3.9% of total energy sales (excluding interchange sales) and 4% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which will terminate December 31, 2008. The contract includes management of Alachua's 600 kilowatts ("kW") share of CR-3 and its 300 kW share of the St. Lucie No. 1 and 2 nuclear units. During the fiscal year ended September 30, 2007, the System sold 106,717 MWh to Alachua and received \$7,673,408 in revenues from those sales, which represents approximately 7% of total energy sales (excluding interchange sales) and 3.7% of total sales revenues. The City of Alachua is in the process of competitively bidding on a new five year power supply contract, and the System has submitted a proposal to provide this service.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2003	2004	2005	2006	2007
Energy Sales–MWh:					
Residential.....	866,080	873,612	875,304	901,437	877,650
General Service, Large Power and Other	931,859	950,797	956,987	981,330	981,820
Firm Wholesale	<u>148,827</u>	<u>143,896</u>	<u>161,264</u>	<u>174,948</u>	<u>181,552</u>
Total.....	<u>1,946,766</u>	<u>1,968,305</u>	<u>1,993,555</u>	<u>2,057,715</u>	<u>2,041,022</u>
Average Annual Use per Customer–kWh:					
Residential.....	11,678	11,429	11,234	11,393	10,938
General Service, Large Power and Other	104,562	103,325	102,439	102,884	101,481

Interchange and Economy Wholesale Sales

The System realizes net revenues from non-firm and/or short-term power sales through TEA. One major factor is the System’s low cost coal-fired baseload capacity, which is a substantially greater percentage than average in the Florida market. However, as the System’s native load increases, the opportunities to make such non- firm and/or short-term power sales have become more limited and the margins gained smaller. Resource shortfalls of another utility or market conditions may provide additional opportunities for such sales. The System experienced an increase in sales of non-firm and/or short-term power between 2006 and 2007, resulted from forced outages and favorable market conditions. Alachua sales increased due to growth in demand in that community. The following table sets forth historical net revenues from interchange and economy sales.

Net Revenues from Interchange and Economy Sales⁽¹⁾
(Fiscal Years ended September 30)
(dollars in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net Revenues	\$2,039	\$766	\$515	\$780	\$1,698
Percent of Total Electric System Net Revenues	3.8%	1.5%	1.1%	1.69%	1.5%

(1) Variable in nature due to regional capacity availability, weather effects on demand and fuel price volatility.

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System’s production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. These purchases are made through TEA. The benefits of the System’s purchases are passed on to retail and firm wholesale customers through their effect on the fuel adjustment portion of their rates. In the year ended September 30, 2007, 12.4% of power for retail and wholesale sales were obtained through off-system purchases.

Demand-Side Management

The System employs cost-effective demand-side management (“DSM”) programs as one way to meet the energy needs of its retail customers. It has been offering DSM programs since 1980. Currently, it is estimated that over 6% of the System’s customers’ energy needs have been met by DSM and renewable energy, the highest percentage reported by any electric utility in Florida. These programs contribute in part to the System having the lowest electrical use per residential customer of any urban area in Florida.

DSM programs available, or expected to be implemented during fiscal year 2008, to the System’s residential customers include: energy audits; low income household weatherization; air conditioning sizing calculations; promotion of high efficiency central air conditioning; promotion of high efficiency room air conditioning; promotion of central air conditioner maintenance; promotion of heat recovery for water heating; promotion of heat pipe enhanced air conditioning; promotion of reflective roof coating for mobile homes; promotion of solar water heating; promotion of natural gas in new construction; promotion of the Energy Star building practices of the United States Environmental Protection Agency (“EPA”); promotion of Green Building practices in multi-family dwellings; promotion of duct repair; promotion of photovoltaic power production; promotion of energy efficiency for low-income households; promotion of proper insulation; promotion of removing second refrigerators from homes; promotion of compact fluorescent light bulbs; promotion of energy efficiency low-interest loans; and promotion of natural gas for displacement of electric water heating, space heating and space cooling in existing structures. DSM programs available to the System’s non-residential customers include: energy audits; lighting efficiency and maintenance services; promotion of high efficiency central air conditioning; promotion of high efficiency room air conditioning; promotion of solar water heating; promotion of natural gas for water heating, space heating and dehumidification; and promotion of any energy efficiency retrofit measure by a customized rebate program. The System now offers standardized interconnection procedures and

compensation for excess energy production for both residential and non-residential customers who install distributed resources.

The System continues to monitor the potential for additional conservation efforts including programs addressing duct leakage, thermal storage, district chilled water cooling, window shading and the energy efficiency of low-income households. In April 2006, the City Commission provided direction to System staff to maximize DSM opportunities. Funding for conservation was increased in 2007 and is expected to increase again in 2008. Staff has been reviewing the efforts of conservation leaders in the industry, and the Interim General Manager and several Commissioners led fact finding trips to California, Texas, Vermont, and New York to maximize these efforts. DSM program implementations are estimated to have provided 26.6 MW of summer peak reduction cumulative, 48.9 MW of winter peak reduction since 1980 and 134,708 MWh in annual energy savings through the year 2007. The System plans to continue and expand its DSM programs as a way to cost-effectively meet customer needs and hedge against potential future carbon tax and trade programs. See “Green Power” and “Future Power Supply” below.

Green Power

The System’s retail customers are environmentally aware and are interested in supporting renewable energy technologies. In October 1993, the System initiated Florida’s first “green power” sales program, providing customers with the opportunity to support renewable energy through contributions made on their electric bill. The “green power” has evolved into what is today marketed and sold as “GRUGreen™”. Participants of this program help fund the continued expansion of the System’s renewable energy portfolio, through a two cent per kilowatt hour (“kWh”) contribution. During the 12-month period ended September 30, 2007, 548 customers chose to participate in GRUGreen resulting in revenue of \$57,524.39. This portfolio includes: a solar PV demonstration project installed on the System’s Energy Control Center (10 kW), two demonstration PV systems installed at local middle schools to aid their science curriculum and provide teacher training (1.7 kW each); a “landfill gas to energy” generating station (2.3 MW installed capacity); and “green tags” purchased from wind energy generation facilities in the Midwest.

In addition to providing customers with choices, the System’s renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. Other aspects of this strategy include carbon offsets from conservation credit, acquisition of development rights for forest land for carbon sequestration (and wetlands protection), and investigations into the use of biomass for power production. See “Future Power Supply” below.

Energy Supply System

Generating Stations

The System owns and operates generating facilities that have a net summer system capability of 611 MW that provided a reserve margin of 27% in the year ended September 30, 2007. The System’s two main generating stations are the John R. Kelly and Deerhaven Station plant sites. The System also owns a small share of CR-3 and a “landfill gas to energy” facility located adjacent to a closed landfill in southwest Alachua County. These facilities are connected to the Florida grid and to the System’s service area over 138 kV and 230 kV transmission facilities that include three interconnections with PEF and one interconnection with FPL. Energy from the landfill gas facility is first wheeled over PEF’s distribution system. The System is currently constructing a combined heat and power facility to serve a new cancer hospital being constructed by Shands Teaching Hospital and Clinics Inc. at the University of Florida. The facility will provide a net base load generation capacity of 4 megawatts while providing waste heat to produce steam and chilled water for the hospital. The entire energy facility called “GRU Energy Center

South” will be owned and operated by the System, and will provide steam, chilled water, emergency and standby power under a 50 year “cost plus” contract with Shands. The combined heat and power facility will enter commercial operation in 2009.

The system has entered into a fifteen year contract for the entire output of electricity to be generated from landfill gas derived from the Baseline landfill in Marion County, Florida. The facility is under construction and the first phase of 3 MW will come online in late spring 2008. The landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline landfill will be wheeled over the PEF’s transmission system.

[The System has also entered into a 50MW base load capacity purchase with PEF. Delivery of power under this agreement will begin January 1, 2010 and end December 31, 2013. The fuel cost of this purchase will be the average production cost of PEF’s designated base load units, which include a blend of nuclear, coal-fired and cogeneration units, which should result in relatively stable and economical fuel prices. For example, in 2006 under the terms and conditions of this contract the all-in cost of this power would have been in the mid \$60’s per MWh with an increment dispatch cost in the very low \$30’s per MWh. Capacity will be provided on a native load firm basis and the System will hold title to the power and may remarket it if so desired. The primary objective of this purchase is to serve as a hedge against Deerhaven 2 outages and volatile fuel prices while enhancing System reliability.]

See also “THE ELECTRIC SYSTEM—Energy Sales—*Interchange and Economy Wholesale Purchases*” for a discussion of certain power purchases employed to allow the System to assure competitive power costs.

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The following table sets forth the existing generation facilities of the System.

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
		Primary	Alternative	
Plant Name	Unit No.			
J.R. Kelly	Steam Unit 8	Waste Heat	—	37.00
	Steam Unit 7	Natural Gas	Residual Fuel Oil	23.20
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	<u>14.00</u>
				177.20
Deerhaven	Steam Unit 2	Bituminous Coal	—	228.40
	Steam Unit 1	Natural Gas	Residual Fuel Oil	83.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.50
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	<u>17.50</u>
			421.40	
Crystal River	Nuclear Steam Unit 3	Uranium	-	<u>11.43</u>
			11.43	
SW Landfill	SW-1	Landfill Gas	-	0.65
	SW-2	Landfill Gas	-	<u>0.65</u>
				<u>1.30</u>
System Total				<u>611.33</u>

John R. Kelly – The John R. Kelly Station (“JRK Station”) is located in downtown Gainesville and consists of one steam turbine, one combined cycle combustion turbine unit, and three simple cycle combustion turbines, providing a total net summer generation capability of 177 MW from the site. The combined cycle unit was completed in May 2001 and demonstrates Management’s ability to garner the support of the community to implement system expansions and improvements. The combined cycle unit was developed by repowering the former John R. Kelly Unit 8 with a heat recovery steam generator utilizing waste heat from a new GE 7EA combustion turbine. All of the Kelly units are equipped for either oil or gas firing.

Deerhaven – The Deerhaven Station is located approximately six miles northwest of Gainesville and encompasses approximately 3,464 acres, which provides room for future expansion as well as a substantial natural buffer. A unique aspect of the site is that it was the first “zero water discharge” power plant built east of the Mississippi River. No industrial wastewater or storm water leaves the site, as it is concentrated until only brine salt remains. The brine salt is subsequently deposited into a secure landfill on the Deerhaven site. The Deerhaven Station consists of two steam turbines and three combustion turbines with a net summer capability of 422 MW. Deerhaven Unit 1 (“Deerhaven 1”) is a steam unit equipped for oil/gas firing with a net summer capability of 83 MW. Deerhaven Unit 2 (“Deerhaven 2”) is a coal-fired steam unit that was placed into commercial operation in October 1981 with a net summer capability of 228 MW. Deerhaven 2 utilizes low-sulfur coal in combination with electrostatic precipitators to meet its air permit requirements. Deerhaven 2 is the System’s most economical unit to run. Although it represents only 37% of the System’s total generating capacity, it provides most of the System’s energy (close to 70% in recent years). For the five fiscal years ended September 30, 2007,

Deerhaven 2 maintained an average operating availability of 83.96% (82.39% in the fiscal year ended September 30, 2007). Operating availability represents the percentage of time the unit was available to serve load at any output level. Deerhaven 2 will require additional emission control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and the Clean Air Mercury Rule ("CAMR") the cost of which is included in the System's capital improvement program. This equipment will consist of selective catalytic reduction ("SCR") to reduce nitrogen oxides ("NO_x"), also scheduled to come on-line May 1, 2009, and a dry scrubber and baghouse air filter to control sulfur dioxide ("SO₂") and mercury, scheduled to come on-line by May 1, 2009. There are also three quick start combustion turbines on the Deerhaven site. Two combustion turbines are rated at 18 MW each; with a third combustion turbine rated with a net summer capability of 75 MW and equipped with dry low NO_x combustors and water injection for NO_x control. Each of these turbines is capable of firing on natural gas or distillate fuel oil. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the 1990 Amendments to the Clean Air Act (the "1990 Amendments"), CAIR and CAMR and their impact on the Deerhaven Station.

Crystal River 3 – CR-3 is a nuclear powered electric generating unit with a current net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, approximately 55 miles southwest of Gainesville. The System owns a 1.4079% ownership share of CR-3 equal to 11,800 kW (11,280 kW delivered to the System). The System's share of CR-3 represents less than 2% of the System's total generating capability. The power from this unit is transmitted over PEF's transmission system to its points of interconnection with the System pursuant to a tariff filed with the Federal Energy Regulatory Commission ("FERC"). CR-3 has been in operation over 25 years and has achieved a cumulative capacity factor of 69.2% through the fiscal year ended September 30, 2007. For the past three years, CR-3 has maintained an average capacity factor of 96.7%. In 2002, the System obtained an 87.5% capacity factor guarantee from PEF as settlement of a dispute related to management of the unit. Under this guarantee, PEF will either immediately provide replacement power for CR-3 from elsewhere in its system or will reimburse the System for replacement power, on a two-year true-up cycle. CR-3's current license with the Nuclear Regulatory Commission (the "NRC") expires in 2016. PEF has begun the process of re-licensing the plant for an additional 20 years. The various upgrades, renewals and replacements associated with this re-licensing will result in an additional 2.5 MW (gross) of nuclear capacity for the System by 2011. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Waste Disposal Regulation" and "INSURANCE" herein for a discussion of certain other matters relating to CR-3.

Fuel Supply

The objectives of the System fuel procurement and management strategy are: (1) diversification of fuel mix and fuel sources, (2) continuous improvement of delivered fuel cost through innovative contract procurement and the use of short-term or spot suppliers, (3) optimizing the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reducing the impact of price volatility in fuel markets through physical and financial risk management of the fuel supply portfolio and (5) participation in joint procurement programs with other municipal systems to maximize the price benefits of volume purchasing. The flexibility afforded by these actions allows the System to take advantage of changes in relative fuel prices and strategically adjust its use of coal, natural gas or fuel oil to optimize its fuel costs. For the fiscal year ended September 30, 2007, the System's fuel mix was as follows: coal 69.42%; natural gas 23.94%; nuclear 5.06%; and oil 1.58%, as a percentage of net generation.

Coal – The System currently has a long-term transportation contract for coal transportation with CSX Transportation that extends through 2019, and owns a 106-car set of aluminum rapid rail cars that are in continuous operation between Deerhaven and the coal fields. In 1997, the System constructed a facility at the Deerhaven Station to allow the System to perform on-site coal car maintenance. Coal

inventory at the Deerhaven Station is maintained at approximately 50-60 days supply, based on projected burn, anticipated disruptions in coal supply or rail transportation, or short-term market pricing fluctuations. The System's coal procurement strategy is to meet forecasted coal requirements primarily through reliance upon long-term fuel supply agreements with reputable coal producers. This strategy allows the System to reduce supply risk, decrease price volatility and insulate customers from short-term price swings, and exert better control over the quality of coal delivered to Deerhaven power plant. Short-term procurement is based on opportunities for cost savings through spot purchases, the need to evaluate new coal sources through test burns, or to take advantage of a producer's excess production capacity. The System's baseload coal supply agreement, which is with Massey Coal Sales Co. ("Massey"), the largest coal producer in the Central Appalachia supply region, is effective through December 2008. The coal volume under the Massey agreement for 2008 is approximately 407,000 tons or approximately 70% of the System's coal supply requirement. This supply position is consistent with GRU's market strategy of maintaining 70 -75% of its coal supply under long term (2-3 years) contracts and the remainder under short term (one year or less) contracts. This position has allowed GRU to take advantage of favorable short term market moves and insured against long term economic disadvantage by locking itself into long term contracts at high prices. The System will participate in the spot market for the remainder of the System's requirement in order to diversify its coal supply sources.

The GRU coal supply strategy will change with the addition of the dry scrubber and SCR, discussed above, at Deerhaven 2 which is currently scheduled for operation in the second quarter of 2009. The dry scrubber will allow GRU to switch from compliance coal to a lower quality coal having a Sulfur Dioxide content of 2.0 – 2.5 pounds/Million Btu. This reduction in sulfur content will allow GRU to utilize coals from more producing regions and suppliers than in the past. As a result of this change in required coal quality, GRU has not extended the existing Massey contract. GRU estimates that it will only require the current higher grade of coal for the first six (6) months of 2009. After that point, it will require only minimal amounts of compliance coal as backup inventory.

GRU has begun its coal procurement process to meet its future coal needs. A request for proposals was sent out in October, 2007 requesting supply proposals for three coal qualities for years 2008 through 2011. GRU received, and is evaluating, proposals from thirteen suppliers offering seventeen supply options for the three grades of coal. New coal supply contracts are expected to be signed in the first quarter of 2008.

Natural Gas – Natural gas for both the electric system and the natural gas distribution system is transported to the System by FGT under long-term contracts for daily firm pipeline transport capacity. These contracts are priced under transportation tariffs filed with FERC. The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through interruptible transportation capacity or through the use of excess delivered capacity from other suppliers on FGT, as arranged by TEA. For the fiscal year ended September 30, 2007, the System consumed 5,056,961 million British thermal units ("MMBtu's") of natural gas in electric generation and 2,121,874, MMBtu's for the distribution system. The average cost of gas delivered to the System in the fiscal year ended September 30, 2007 was \$8.06/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge and reduce costs and provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential LNG projects and supply offers, review of potential long-term purchases, natural gas supply baseload contracts, and the purchase and sale of financial NYMEX commodity contracts and options. TEA is responsible for procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. See "Energy Sales – *The Energy Authority*" above.

On September 20, 2006, the City became a participant in a long-term prepaid natural gas purchase with a number of other Florida municipalities through Florida Gas Utility (“FGU”), a joint action agency formed under the Florida Interlocal Cooperation Act of 1969, Section 163.01, Florida Statutes. The baseload purchase will account for approximately 18% of the System’s natural gas requirements per year. Customers of the System are expected to realize savings averaging \$0.5761/gross MMBtu (Source: FGU Zone 2 posting) compared to FGT’s Zone 2 price as posted in “Inside F.E.R.C.” for the first of the month. The City’s obligations to FGU under such purchase constitute a “Credit Obligation” within the meaning of the Resolution and, as such, are payable as Operation and Maintenance Expenses, prior to the payment of debt service on the Bonds. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Application of Revenues” in APPENDIX C hereto.

Oil – The System continually monitors the price of natural gas and No. 6 fuel oil for potential fuel cost savings available through fuel switching. In cases where the price of fuel oil delivered into the System maintains a sustained pricing advantage to natural gas, the System will dispatch its fuel oil/natural gas capable units to No. 6 fuel oil or diesel fuel. The switching between the two fuels is driven by delivered price and unit efficiency on each fuel. The System purchases its fuel oil supply through competitive bidding. The System seeks to control the costs by purchasing forward supply at fixed prices and timing market entry points to take advantage of favorable pricing trends. The System currently is evaluating the potential for providing more fuel oil price stability by parallel financial hedges of natural gas and/or crude oil. For the fiscal year ended September 30, 2007, the System’s average cost for No. 6 fuel oil was \$7.797/MMBtu and for No. 2 fuel oil was \$16.061/MMBtu.

Nuclear – PEF, as operator of CR-3, has contract responsibility for nuclear fuel supply, including uranium concentrates, enriching services and fabrication of fuel for CR-3. Spent nuclear fuel is stored at CR-3 until transported and disposed of, when disposal sites become operational, under a contract with the United States Department of Energy. At the present time, PEF has facilities on-site to accommodate storage of spent fuel.

Transmission System, Interconnections and Interchange Agreements

The System has a looped transmission system with sufficient interconnection capacity to import sufficient power to serve its territory under the extreme worst case planning scenario of assuming that the System’s three largest generating units (comprising nearly 65% of the System’s total generating capacity) are out of service. Additional reactive power support is planned for the near future to take full advantage of the import capacity. The System’s transmission system circles the service area and connects 3 switching stations, 6 loop fed substations, and 3 radial fed substations with a 138 kilovolt (“kV”) loop system that provides a high degree of reliability. In a looped system, the loss of any single circuit between looped substations will not interrupt service as the substation can be served from the other direction. If the circuit feeding a radial fed substation is lost, its load can be served by field switching to adjacent distribution circuits of another substation. The System’s transmission loop has four interconnections with Florida’s transmission grid, connecting to PEF to the west and the south and to FPL to the east. The System has three interconnections with PEF, one at PEF’s Archer Substation over a 230 kV transmission line, and two at the Idylwild substation via PEF’s autotransformer to its 69 kV lines. The System also has an interconnection agreement to wheel power generated at a landfill gas site via PEF’s 12.5 kV distribution system to PEF’s Archer Substation. Finally, the System has a 138 kV transmission interconnection at FPL’s Hampton Substation. The present transmission network consists of approximately 117.2 circuit miles of 138 kV and 2.5 circuit miles of 230 kV. The System has interchange agreements in place with all of the major generating utilities in Florida that allow power to either be bought or sold anywhere in Florida by transmitting (“wheeling”) power through either PEF or FPL. The System is a member of the Florida Reliability Coordinating Council, Inc. (“FRCC”). FRCC is a sub-region of the North American Electric Reliability Council (“NERC”), which consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing installed

and spinning reserves for reliability purposes with the other generating utilities in Florida, resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

Electrical Distribution

All of the System’s distribution substations are loop fed or radial fed from the 138 kV transmission looped system. The System currently has 6 loop fed substations and 3 radial fed substations connected to the transmission network, which feed power to the 12.47 kV distribution network. The transmission and distribution facilities are fully modeled in a geographical information system (“GIS”). The GIS system is integrated with the System’s automated trouble system that allows customer calls to be linked to specific devices to enhance service restoration. The integrated GIS system is also used extensively in routing loads to specific circuits and planning distribution and substation system improvements. Approximately 55% of the distribution system’s circuit miles are underground, which is among the highest percentages in Florida. In 2007 the construction of a new substation, Kelly West, was completed. There is a new substation planned at Springhills and construction will begin in 2008. Additional substations are planned for 2009 and 2011 to improve reliability and flexibility in serving the growing load in the System’s territory.

The System no longer has in service in its distribution system any known electric apparatus containing substantial polychlorinated biphenyls (“PCB’s”), a hazardous substance. In fact, all known equipment has less than 50 parts per million (“ppm”) of PCB’s.

The remaining substation equipment containing 50 to 499 ppm of PCB’s are scheduled for decontamination by 2010. These 4 power transformers will be budgeted for decontamination at the rate of one transformer per year.

Capital Improvement Program

The System’s current six-year electric capital improvement program requires a total of approximately \$382,865,000 in capital expenditures between the fiscal years ending September 30, 2008 through 2013, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below. A substantial portion of the Generation and Control items in the electric system’s capital budget (\$116,069,000) is for the purpose of making improvements to meet the requirements of the CAIR and CAMR regulations at Deerhaven 2. See “FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions” herein.

Electric Capital Improvement Program

	Fiscal Years ending September 30,						Total ⁽¹⁾
	2008	2009	2010	2011	2012	2013	
	(dollars in thousands)						
Generation and Control	\$ 96,923	\$ 53,805	\$14,198	\$ 9,664	\$ 4,837	\$ 2,248	\$181,675
Transmission and Distribution.....	10,496	10,789	11,448	13,583	14,307	13,311	73,934
Miscellaneous and Contingency ...	47,512	33,218	22,312	8,100	7,258	8,856	127,256
Total	<u>\$154,931</u>	<u>\$97,812</u>	<u>\$47,958</u>	<u>\$31,347</u>	<u>\$26,402</u>	<u>\$24,415</u>	<u>\$382,865</u>

(1) The System’s current six-year electric capital improvement program does not include amounts in respect of the acquisition or construction by the System of additional generating capacity. See “Future Power Supply” below. The costs of the acquisition or construction of such additional generating capacity could be substantial.

Loads and Resources

A summary of the System’s generating resources compared to historical and projected capacity requirements is provided below:

Fiscal Year	Net Summer System Capability (MW) ⁽¹⁾	Firm Interchange Sales (MW) ⁽²⁾	Peak Load (MW) ⁽³⁾	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2003	610	3	417	190	46
2004	611	3	432	176	41
2005	611	3	465	143	31
2006	611	3	464	144	31
2007	611	0	470	141	30
Projected					
2008	614	0	476	139	29
2009	616	0	485	130	27
2010	666	0	492	174	35
2011	666	0	498	168	34
2012					

(1) Based upon summer ratings. Deerhaven CT 3 (75 MW) was placed in service in January 1996. In 2001, Kelly Unit 7 was re-powered with Kelly CT 4 into a combined cycle configuration for a net gain of 60 MW. Auxiliary loads associated with additional emission control equipment on Deerhaven 2 are projected to reduce capacity by 3 MW in 2009. 3MW capacity from the Baseline landfill will be added in 2008, and 4MW from GRU Energy Center South in late 2009. One .64 MW landfill gas to energy unit will be retired in 2010 and a four year purchase of 50 MW of firm base load capacity will begin delivery on January 1, 2010.

(2) Includes Alachua and Seminole all-requirements wholesale contracts which are given the same precedence as native load.

(3) Forecast incorporates GRU's aggressive conservation and demand side management plan which is projected to result in a peak load reduction of 21 MW by 2012. The plan includes demand response rates, regulatory changes and distributed renewable resources as well as incentive and information programs related to appliance and end use efficiency.

Mutual Aid Agreement For Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with seven other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, Seminole, and the Municipal Electric Authority of Georgia. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of gas assuming a heat rate that corresponds to a combined cycle gas-fired generating unit. The System has designated 100 MW of the capacity of Deerhaven 2 to be covered under the agreement. The mutual aid agreement has been renewed and extended through November 2012.

Future Power Supply

General

Forecasts of load growth indicate that existing generating resources will be adequate through 2018 to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional direct load control and DSM into the System's Integrated Resource Plan ("IRP"), more conservative customer growth and sales forecasts, and the addition of 7MW of generating resources. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply while meeting all environmental standards and expectations of the local community. The ability to be self-generating has

proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity.

The Planning Process

The System has an ongoing IRP process to support this strategy. Data on fuel price forecasts, construction and operation costs for generation technologies, assessments of renewable resources, emerging regulatory trends, opportunities in the community and surrounding area, and extensive interaction with the public and elected officials inform this process. The System is unique in that one of the objectives of the IRP planning process adopted in the last year is to attempt to meet the Kyoto protocols for its operations, which include electrical generation, natural gas services, water and wastewater facilities, vehicle fleets, administrative buildings and other facilities. This is responsive not only to community concerns regarding climate change, but in anticipation of forthcoming renewable portfolio standards and carbon regulations. The current emphasis of this process is to continuously refine our conservation and demand side management plans (including incentives for solar energy applications) and to secure economic base load capacity that is consistent with meeting potential renewable energy and greenhouse gas constraints.

Market Involvement

In 2006 the System issued a broad request for letters of interest in providing base load electrical generation capacity. A wide range of proposals were received and evaluated. There over twenty responses, representing a wide range of fuels (coal, petroleum coke, municipal solid waste, and forest waste products). A wide range of technologies and contractual options were also represented. The responses received indicated that with new production tax credits, trends in interest rates, the value of depreciation tax credits, and the willingness for major financial interests to assume risks for new technologies, the conventional assumption that self build options of conventional technologies are always the least cost may no longer always be the case. It was also apparent that biomass, which is relatively abundant in the area had the potential to provide an economic source of power.

In March of 2007 the City Commission reviewed the results of this solicitation. In view of the communities concerns about climate change, indications of the intent of state and federal government to impose renewable portfolio standards and carbon constraints, and the volatility of natural gas prices, staff was instructed to pursue options not involving fossil fuels as a primary fuel source and to pursue a potentially favorable purchased power proposal obtained as part of the solicitation.

Opportunity Development

In addition to the planning and development of relatively large, central station facilities, the System has sought unique opportunities on a smaller scale related to distributed generation, energy efficiency, and renewable energy. Two of these initiatives have resulted in additional distributed generation capacity in the last year, including the GRU Energy Center South combined heat and power facility (4 MW base load capacity), the Marion County Baseline landfill to energy project, owned and operated by a private developer with dedicated sales to the System (3 MW base load capacity).

Two additional options currently being pursued by the System are to conclude negotiations for a four year, 50 MW firm base load purchased power agreement and to pursue participation in an option recently made available to participate in a relatively small share of the nuclear units being proposed for construction in a nearby county by Progress Energy Florida, Inc. The purchased power agreement has

received formal approval by vote of the City Commission. The City Commission has authorized discussion for potential participation in the nuclear unit, but has not taken formal action to participate

Biomass Resource Development

The north central Florida region's primary source of renewable energy, other than solar, is from biomass. There is insufficient wind, hydro, geothermal, tidal or wave energy to make the development of these resources feasible with current technology. Photovoltaic power is not able to provide economic base load generation capacity. The System contracted with the University of Florida's School of Forest Resources to conduct a comprehensive analysis of the amount of biomass available assuming competition for the resource from other utilities and a variety of transportation cost scenarios.

In October of 2007, an RFP was issued for biomass fueled electrical generation capacity, which could include utilization of municipal solid waste. In order to encourage as wide a range of proposals, and in recognition of the cost to develop binding proposals, the RFP process was designed to consist of two steps. The first step of the process will result in a maximum of three respondents being invited, by the beginning of the second quarter of 2008, to submit final, binding proposals which would form the basis for contract negotiations. Eleven proposals have been received pursuant to this RFP and are currently under evaluation.

Carbon Management

Climate change and greenhouse gas management is a growing local, state and federal concern. The potential enactment of renewable portfolio standards and carbon constraint regulations is imminent in Florida as the consequence of recent executive orders. Nationally and globally these concerns are also growing in importance. In anticipation of these regulatory challenges and in response to community interest, carbon management has become a major consideration in energy supply planning. Furthermore, the System has a vested financial interest in protecting the value of the carbon offsets it has already achieved. Registering these offsets and measuring plans against known targets are two critical aspects of this process. Kyoto protocols are one such target.

The System has recently completed a carbon inventory for 2006 and established a baseline rate of carbon emissions for 1990. Kyoto protocol targets call for a 7% reduction in total carbon emissions or equivalent carbon offsets by the US by 2012. The System conducted the inventory pursuant to DOE 1605b regulations, and plans to register these values with the DOE as a hedge against future carbon regulations. Significant carbon offset credits have been created by the System's purchase of forest management rights for well field protection, re-powering of Kelly Unit 7 into a combined cycle unit in 2001, replacing electric water heating with natural gas and other conservation programs, the new Shands combined heat and power facility, landfill gas to energy projects, and installation of photovoltaic systems, among other projects. None of these projects were undertaken strictly to offset carbon emissions but were justified on their need to cost-effectively meet other objectives. Staff has developed scenarios indicating that the equivalent carbon offsets of biomass and nuclear capacity could potentially allow the System to attain the Kyoto protocol targets. Doing so may mitigate risks associated with renewable portfolio standards, fuel price volatility, and carbon constraints.

THE NATURAL GAS SYSTEM

The natural gas system was acquired in January 1990 and since then has met the System's customers' preferences for natural gas as a cooking and heating fuel as well as provided a cost-effective DSM program alternative. The natural gas systems consist primarily of underground gas distribution and service lines, four points of delivery or interconnections with FGT, and metering and measuring equipment. Liquid propane ("LP") systems are utilized for new developments that are beyond the

existing natural gas distribution network. As the natural gas system is expanded, the LP systems and customer appliances are converted from LP to natural gas. Most of these LP systems are located in areas served by Clay for electric service.

Service Area

The natural gas system services customers within the City limits and in the surrounding unincorporated area. In addition, the natural gas system serves customers within the city limits of Alachua and High Springs. The franchise agreement with Alachua expired on November 10, 2007; Alachua has an option to purchase the distribution system in Alachua from the City. The Alachua City Commission has directed their staff to study the feasibility of buying the distribution facilities within Alachua’s corporate limits from the System. The terms and conditions of the expired franchise remain in effect until such time as the new franchise is negotiated or until a satisfactory buy-out agreement is reached. Service has continued uninterrupted and the customer base continues to expand in that community. Alachua, with a population of 7,557 (2005 estimate) has 915 predominantly residential customers in a 28.9 square mile area, while High Springs has a population of 4,157 (2005 estimate) and an area of 18.45 square miles. Without regard for changes attributable to Alachua and High Springs, the area the System serves includes approximately 115 square miles and approximately 32% of the County’s total population.

Customers

The natural gas system has experienced steady growth in customers in recent years of 2.8%, compounded annually. The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2003 through 2007. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	<u>Fiscal Years ended September 30,</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Customers (Average)	30,206	30,901	31,706	32,522	33,125

The composition of the System’s natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 5.5% of the 33,125 average customers served in the fiscal year ended September 30, 2007. The ten largest retail customers of the natural gas system in the fiscal year ended September 30, 2007 (excluding general government functions of the City) represented approximately 20.2% of annual gas sales revenue. The single largest retail customer of the natural gas system represented approximately 3.3% of annual gas sales revenue.

Natural Gas Supply

Natural gas is procured and delivered in much the same manner as for the System’s electric generation operations. TEA purchases commodity, handles pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution (“LDC”) system peak demands provides opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ended September 30, 2007 was \$8.66/MMBtu. Fuel costs for the natural gas system differ from those of the electric system only in that the gas system has no fuel switching capability and must carry sufficient pipeline reserve capacity to meet peak demands, resulting in higher delivered fuel costs.

Natural Gas Distribution

The natural gas system consists of 723 miles of gas distribution mains. The predominant and now standard pipe materials in service are polyethylene (513 miles) and coated steel (180 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The remaining 30 miles of the distribution system are comprised of the following materials: uncoated steel, cast iron, and black plastic. The replacement of all three of these pipe materials has been programmed within the immediate planning/construction horizon and in advance of regulatory requirement.

Manufactured Gas Plant

Gainesville's natural gas system originally distributed "blue water gas", which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid 1950's, coal residuals and spilt fuel had contaminated soils at and adjacent to the manufactured gas plant ("MGP") site. When the natural gas system was purchased, the System assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. The System also has pursued recovery for the MGP from past insurance policies and, to date, has recovered \$2.2 million from the policies. Site investigations on properties affected by MGP residuals have been completed and the System has completed limited removal actions. The System currently is seeking final approval of its proposed overall Remedial Action Plan which will entail the excavation and thermal treatment of impacted soils. This plan will be implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State of Florida. Following remediation, the property will be redeveloped by the City as a park, including storm water ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design.

The remediation costs are currently estimated at \$12 million and are included in the natural gas capital improvement program. These costs are subject to increases related to rising fuel prices or the discovery of additional soil impacts. In the fiscal year ended September 30, 2003, the System implemented a cost recovery factor to fund the remediation. This factor has been applied to retail customers' bills since that time and is subject to change depending on future cleanup costs.

Capital Improvement Program

The System's current six-year natural gas capital improvement program requires a total of approximately \$42,215,000 in capital expenditures between the fiscal years ending September 30, 2008 through 2013, inclusive. The single largest capital cost category is the MGP remediation, as discussed above. A breakdown of the categories included in the six-year capital improvement program is outlined below. The table below does not take into account any capital expenditures that may result from the System's new franchise to provide natural gas service in High Springs. See "Service Area" above.

Gas Capital Improvement Program

	Fiscal Years ending September 30,						<u>Total</u>
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
	(dollars in thousands)						
Distribution Mains	\$1,611	\$ 1,246	\$ 1,325	\$1,687	\$1,763	\$1,838	\$ 9,470
Meters, Services and Regulators...	1,648	1,171	1,240	1,581	1,576	1,643	8,859
Acquisition and Clean-up	-	5,871	6,204	50	53	55	12,233
Miscellaneous and Contingency ...	2,028	3,381	4,148	684	699	713	11,653
Total.....	<u>\$5,287</u>	<u>\$11,669</u>	<u>\$12,917</u>	<u>\$4,002</u>	<u>\$4,091</u>	<u>\$4,249</u>	<u>\$42,215</u>

THE WATER SYSTEM

The water system currently includes 1,051 miles of water transmission and distribution lines throughout the Gainesville urban area, fifteen water supply wells located in a protected well field, and one treatment plant (the “Murphree Plant”) possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant’s design allows for expansion to 60 Mgd of capacity at the plant site without interruption of treatment or service. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

Service Area

The water system serves customers within the City limits and in the immediate surrounding unincorporated area. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the water system for all but very low density residential developments. Much of the water system’s growth is in areas served by Clay for electricity. The area presently served includes approximately 118 square miles and approximately 72% of the County’s total population. The University of Florida and a small residential development in Alachua are the only wholesale sales customers. All other customers are served under either the water system’s residential inverted block rate or the general service category.

Customers

The System has experienced steady growth in customers in recent years. The System has extension policies for providing water supply services to new developments with connection fees, appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ended September 30, 2003 through 2007.

	Fiscal Years ended September 30,				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Customers (Average)	61,078	62,890	64,692	66,475	67,774

Most of the System’s individual water customers are residential. Commercial and industrial customers comprised approximately 8.0% of the 67,774 average customers in the fiscal year ended September 30, 2007, and 67% of all water sales revenues were from residential customers. The ten largest customers of the water system in the fiscal year ended September 30, 2007 (excluding general government functions of the City) represented approximately 8.5% of annual water sales revenues. The single largest customer of the water system represented approximately 5.1% of annual water sales revenues.

Water Treatment and Supply

Gainesville's water supply is groundwater obtained from a well field tapping into a confined portion of the Floridan aquifer. Groundwater is treated at the Murphree Plant prior to distribution and eventual use. Water treatment and supply facilities are planned based on the need to provide reserve capacity under extreme conditions of extended drought, with attendant maximum demands for water and lowered aquifer water levels. Under these design conditions, water treatment and supply facilities are currently adequate through at least 2009. The planned completion of construction of additional filtration capacity and another well in 2009 will provide adequate treatment and supply reserves through 2012. The ultimate build out capacity of the plant, which is 60 Mgd maximum daily flow, should be adequate through at least 2026. No limitation of supply imposed by the aquifer's sustained yield has been identified by groundwater studies to date.

Water treatment at the Murphree Plant consists of softening to protect the distribution system and improve customer satisfaction, fluoridation for improved cavity protection in young children, and chlorination for protection from microbial contamination. Specific treatment processes include sulfide oxidation, lime softening, pH stabilization, filtration, fluoridation, and chlorination. Treated water is collected in a clearwell for transfer to ground storage reservoirs prior to distribution. The filter system will be upgraded by 2009 with the addition of two additional filter cells.

Raw water requirements for the water system are supplied by fifteen deep wells drilled into the Floridan aquifer. Vertical turbine pumps raise the water and deliver it to the Murphree Plant for treatment. In 2000, the System, along with the local Water Management Districts, purchased a conservation easement over 7,000 acres of silvicultural property immediately to the north and northwest of the Murphree Plant. The conservation easement provides protection to the System's fifteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site. An additional well will be completed in 2009.

The Cabot/Koppers Superfund site, which was declared a Superfund Site in 1983, is located approximately 2 miles to the southwest of the Murphree Plant. The site is contaminated from past wood treating and pine tar processing operations. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, measures are needed to contain the contamination and clean up the site to ensure that Gainesville's water supply is protected. Although the System is not a potentially responsible party ("PRP") for this site, it has been and intends to continue being highly proactive in protecting Gainesville's water supply. The System has installed "sentinel" groundwater monitoring wells close to the contaminated site, conducted groundwater testing at the sentinel wells and at other wells in the area, and actively participated as a stakeholder working with EPA and the PRP for the site (Beazer East, Inc.) to develop remediation plans. The System has assembled a team of three experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with EPA and the PRP to ensure that the appropriate steps are taken. The System regularly tests both the raw and finished water at the well field and there has been no trace of contamination.

Transmission and Distribution

The water transmission system consists primarily of cast and ductile iron water mains from 10 to 36 inches in diameter providing a hydraulically looped system. The Murphree Plant pumping station, the Kelly Repump station, and the Santa Fe Repump station provide water flow and pressure stabilization throughout the service area. The water distribution system consists of cast iron, ductile iron, and polyvinyl chloride water mains from 2 to 8 inches in diameter and covers a service area of approximately 118 square miles. The System not only installs new water distribution system additions, but also

approves plans for and inspects private developers' water distribution systems which ultimately are deeded over to the System to become an integral part of the System's overall distribution system. The System spent \$1.63 million in the fiscal year ended September 30, 2007 and is planning to spend an additional \$9.75 million in the fiscal years ending September 30, 2008 through 2013, inclusive, for improvements to the transmission and distribution system to assure adequate pressures and fire flows under future conditions.

Capital Improvement Program

The System's current six-year water capital improvement program requires a total of approximately \$56,357,000 in capital expenditures between the fiscal years ending September 30, 2008 through 2013, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

	Water Capital Improvement Program						Total
	Fiscal Years ending September 30,						
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	
	(dollars in thousands)						
Plant Improvements	\$ 4,926	\$ 6,286	\$3,679	\$3,275	\$3,482	\$2,745	\$24,393
Transmission and Distribution.....	2,682	2,179	2,837	3,653	3,540	4,749	19,640
Miscellaneous and Contingency.....	2,498	3,607	3,291	968	976	984	12,324
Total	<u>\$10,106</u>	<u>\$12,072</u>	<u>\$9,807</u>	<u>\$7,896</u>	<u>\$7,998</u>	<u>\$8,478</u>	<u>\$56,357</u>

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 568 miles of gravity sewer collection system, 154 pump stations with 127 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF. While effluent disposal is mostly accomplished through deep well injection and surface water discharge, the System is aggressively expanding its reuse systems at both of its treatment plants in order to conserve groundwater resources and provide additional effluent disposal capacity expansion.

Service Area

The wastewater system service area is essentially the same as the water system service area. Similar to the Water system, extension policies for providing wastewater facilities and service to new customers are in place with connection fees appropriately designed to protect existing customers from rate pressure from adding new customers. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the wastewater system for all but very low density residential developments. Much of the wastewater system's growth is in areas served by Clay for electricity. The Wastewater system does not serve the majority of the University of Florida campus.

Customers

The System has experienced steady growth in customers in recent years. The following tabulation shows the average number of wastewater customers for the fiscal years ended September 30, 2003 through 2007.

	<u>Fiscal Years ended September 30,</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Customers (Average).....	54,310	55,821	57,553	59,206	60,205

The composition of the System’s wastewater customers is predominantly residential, Commercial and industrial customers comprised approximately 6.7% of the 60,205 average customers in the fiscal year ended September 30, 2007, and residential customers were the source of 72% of the wastewater system’s revenues in the fiscal year ended September 30, 2006. The ten largest users of the wastewater system in the fiscal year ended September 30, 2006 (excluding general government functions of the City) represented approximately 4.8% of the revenues from wastewater billings. The single largest customer of the wastewater system represented approximately 0.9% of annual revenues from wastewater billings.

Treatment

The wastewater system currently includes two major wastewater treatment plants, the Main Street Wastewater Treatment Plant (the “Main Street Plant”) and the Kanapaha Water Reclamation Facility (the “Kanapaha Plant”). Currently, these facilities have a combined capacity of 22.4 Mgd AADF, which is sufficient capacity to meet the needs of the system through 2025. Although these facilities receive flow from adjacent but distinct collection areas, a pump station that allows wastewater to be routed to either the Main Street Plant or Kanapaha Plant allows treatment capacity at both facilities to be fully utilized.

The Main Street Plant has a treatment capacity of 7.5 Mgd AADF and was upgraded in 1992 to include advanced tertiary activated sludge treatment process units. The new facilities included effluent filtration, gravity belt sludge thickeners, and major improvements to plant headworks to control odors and improve plant reliability. Existing sludge treatment facilities are adequate to meet the federal sludge regulations. Effluent from the Main Street Plant is discharged to the Sweetwater Branch and must meet requirements of the FDEP for discharge to Class III surface waters. The Main Street Plant meets all standards pursuant to its National Pollutant Discharge Elimination System (“NPDES”) permit.

A reclaimed water transmission line from the Main Street Plant has been constructed to eventually provide water for the City’s future bus wash facility, and for use at the recreational area to be created as part of the MGP remediation (see “THE NATURAL GAS SYSTEM – Manufactured Gas Plant” herein). In addition, there are capabilities to extend this line to provide reclaimed water service to Ironwood Golf Course and other areas, as needed to increase water reuse capacity.

GRU is also extending a reclaimed water line to the combined heat and power facility at the Shands Cancer Hospital. Reclaimed water will be used for process cooling and irrigation.

A Total Maximum Daily Load (TMDL) was adopted by the FDEP in January 2006, which will require future reductions in total nitrogen discharges from the Main Street Plant and other nitrogen sources. Florida’s TMDL regulations allow FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. GRU is planning to achieve this TMDL by either expanding reclaimed water usage or through participating in a proposed cooperative environmental restoration project known as the Sweetwater Branch/Paynes Prairie Sheetflow Restoration project. At this time FDEP has not imposed a fixed deadline for GRU to meet the TMDL requirements in recognition of the complexity of the issues, the number of parties involved and the obvious good faith efforts being expended and the progress being made by the System.

The Kanapaha Plant is permitted to discharge into a potable zone of the Floridan aquifer. Accordingly, its effluent must meet drinking water standards. Construction was completed in June 2004 to provide a capacity of 14.9 Mgd AADF. The plant has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a carousel advanced wastewater

treatment activated sludge system. The treatment process concludes with filtration and chlorination prior to discharge into gravity drainage wells or a reclaimed water treatment distribution system.

The Southwest Reuse Project distributes reclaimed water from the Kanapaha Plant to customers for landscape irrigation and golf course irrigation. All reclaimed water not reused directly recharges the Floridan aquifer via deep recharge wells that discharge to a depth of 1,000 feet.

The System delivered approximately 3.0 Mgd AADF of reclaimed water in the fiscal year ended September 30, 2007. The regional water management districts encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

Wastewater Collection

The wastewater gravity collection system consists of 15,987 manholes with 593 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of polyvinyl chloride (“PVC”) pipe, and those 12 inches in diameter and over of ductile iron pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the system and sealing older lines. As a result, infiltration and inflow to the System are not excessive.

The force main system which routes flow to the treatment plant consists of 162 pump stations and over 129 miles of pipe. Existing lines under 12 inches in diameter are generally constructed of PVC pipe and those 12 inches in diameter and over of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC with larger force mains constructed of ductile iron or High Density Polyethylene (HDPE). The System has instituted a preventative maintenance program to insure long life and efficiency at all pumping stations.

Capital Improvement Program

The System’s current six-year wastewater capital improvement program requires a total of approximately \$81,165,000 in capital expenditures between the fiscal years ending September 30, 2008 through 2013, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Wastewater Capital Improvement Program

	Fiscal Years ending September 30,						
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	(dollars in thousands)						
Plant Improvements	\$ 4,836	\$ 4,388	\$ 4,315	\$1,732	\$ 1,535	\$ 2,935	\$19,741
Reclaimed Water	8,948	6,323	7,498	5,513	7,946	3,057	39,285
Collection System	1,711	953	1,389	857	895	3,791	9,596
Miscellaneous and Contingency ..	3,317	3,317	2,810	1,026	1,027	1,046	12,543
Total	<u>\$18,812</u>	<u>\$14,981</u>	<u>\$16,012</u>	<u>\$9,128</u>	<u>\$11,403</u>	<u>\$10,829</u>	<u>\$81,165</u>

THE TELECOMMUNICATIONS SYSTEM

The System has been providing retail telecommunications services since 1995 under the brand “GRUCom.” Services provided by GRUCom include data transport services to other local businesses, government entities, local and inter-exchange carriers, and Internet service providers. Additional services provided by GRUCom include tower space leases for wireless personal communications (cellular telephone) providers and public safety radio services for all the major public safety agencies operating in

the County. GRUCom is licensed by the FPSC as an Alternative Access Vendor and as an Alternative Local Exchange Carrier.

Service Area

GRUCom provides telecommunications and related services to customers located primarily in the Gainesville urban area, but it provides public safety radio services throughout the entire County through interlocal agreements. Telecommunications licenses held allow GRUCom to provide telecommunication services throughout the State of Florida.

Services Provided

The services provided by GRUCom fall primarily into the following four major product lines: telecommunications services; Internet access services; communication tower antenna space leasing; and public safety radio services.

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits delivered in whole, or in part, on the GRUCom fiber optic network. These high bandwidth circuits are capable of carrying voice, data or video communications. Private Line circuits are point-to-point, unswitched channels connecting two or more customer locations with a dedicated communication path. Special Access circuits are also unswitched and provide a dedicated communication path, but these circuits connect a customer location to the Point of Presence of another telecommunications company. GRUCom transport services are provided at various levels ranging from 1.5 megabits per second ("Mbps") to 2.5 gigabits per second ("Gbps"). Part of GRUCom's business strategy is to use unbundled network elements from the incumbent local exchange carrier (now AT&T through merger with BellSouth) in anticipation of fiber extensions to specific service locations. In 2003, GRUCom installed a software based telecommunications switch that is capable of delivering local exchange telecommunications services. In recent years the telecommunications switch has been used only to provide telephone lines required for dial-up Internet access, which are inward call only lines. However, GRUCom has upgraded the switch and is offering expanded services including two-way, business voice service in the future.

GRUCom also uses the fiber optic network to provide high speed, dedicated Internet access services. Business connections to the Internet are offered at access speeds ranging from 256 kilobits per second ("Kbps") up to 45 Mbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 6 Mbps. Additionally, GRUCom offers dial-up and ISDN Internet access services under the domain names GRU.Net, Gator.Net and SFCC.Net. The dial-up access speeds available are 56 Kbps and 128 Kbps.

GRUCom operates eleven communications towers in the Gainesville area and leases antenna space on these towers as well as on two of the System's water towers. Two of the five antenna sites for the countywide public safety radio system are also located on these communications towers. Wireless communications service providers lease space on the towers and, in most cases, also purchase fiber transport services from GRUCom to receive and deliver traffic at the towers. GRUCom provides transport services that carry a substantial portion of cell phone traffic in the Gainesville urban area. The GRUCom public safety radio system began operation in 2000. These services are provided over Federal Communications Commission ("FCC") licensed 800 MHz frequencies, utilizing a trunked radio system that is compliant with the FCC's current frequency allocations and positioned to accommodate frequency changes recently enacted by the FCC to accommodate personal communication services ("PCS") providers. The trunked radio system meets current industry standards for interagency operability. The system consists of 22 trunked voice frequencies and 6 wireless data frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom's transport services. Certain

frequencies used by the system currently are being changed in conjunction with a mandate from the FCC which will accommodate PCS provider Nextel. All cost associated with this “rebanding” will be paid by Nextel.

Customers

GRUCom’s customer base is growing as the fiber optic network is expanded and new product offerings are introduced. Customer types vary for each GRUCom business activity.

GRUCom’s fiber transport customers include other telecommunications companies, commercial and industrial businesses, governmental agencies, schools and hospitals. As of September 30, 2007, GRUCom had a total of 103 transport customers with 972 circuits provisioned.

Dedicated Internet access services are provided to other Internet service providers, local businesses and organizations, and participating multi-dwelling complexes. Dial-up Internet access services are provided to the general public in the local calling area. At September 30, 2007, GRUCom had 4,131 dedicated Internet access customers while dial-up customers totaled 1,636.

GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2007, GRUCom had executed 37 tower leases, for space on 13 antenna sites with 8 different lessees. Wireless communications service providers utilizing City towers include Alltel Mobile, AT&T Wireless, Nextel Communications, Sprint PCS, T-Mobile Communications and Verizon Wireless.

Public safety radio system customers consist solely of government entities due to restrictions on the use of the frequencies allocated to the system under licenses issued by the FCC. The primary radio system users include: the System, the City’s Police, Fire Rescue and Public Works Departments, the University of Florida’s Police Department, the Santa Fe Community College’s Police Department, the County’s Sheriff’s Department, and the County’s Fire Rescue and Public Works Departments. These users have entered into a service agreement through 2014, with minimum commitments for the number of users and monthly fees per user established for voice, data, and dispatch subscriber units. The public safety radio system is operated by GRUCom on an enterprise basis, but an interagency Radio Management Board has been established to govern user protocols, monitor system service levels, and review system changes that could increase rates. The system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the system to expand. Currently, the system is in full operation with 2,683 subscriber units in service.

Description of Facilities

As of September 30, 2007 GRUCom had 301 miles of fiber optic cable installed throughout Gainesville and the County. The fiber strand count included in the cable depends on service requirements for the particular area and ranges from 12 to 144 strands. The fiber is installed in a ringed topology consisting of a backbone loop and several subtending rings. Service is provisioned on the network in two ways. For carrier grade services, GRUCom has deployed optical equipment manufactured by Nortel (primarily) using the Synchronous Optical Network (SONET) standard protocol. For commercial services, GRUCom uses Ethernet switches manufactured by Cisco on the network. The Ethernet protocol provides GRUCom with increased flexibility for managing bandwidth delivered to the customer. The maximum transport speed currently utilized in the fiber optic network is 2.5 Gbps which is enough bandwidth to deliver more than 32,000 simultaneous phone calls (as an illustration). Bandwidth on this network is a function of the electronic equipment utilized and, with technologies such as dense wave division multiplexing, expansion of the transport capability of the network is virtually unlimited. To exchange network traffic, GRUCom also is interconnected with other major telecommunications

companies serving the Gainesville area including AT&T, Interstate Fibernet, Level 3 Communications and Verizon Business.

GRUCom currently has two separate backbone connections into the Internet. One is a burstable 155 Mbps connection to the Internet from AT&T that is picked up by GRUCom at the Gainesville AT&T Point of Presence on the GRUCom fiber optic network. The other is a burstable 1 Gbps connection from the Cogent Communications access node in Atlanta, Georgia. The Cogent connection is currently limited to 600 Mbps by the transport circuit provisioned between Atlanta and Gainesville, however the bandwidth capacity of the transport circuit can be upgraded when necessary. Effectively, GRUCom now has backbone connections to the Internet available totaling 755 MMbps. The Internet backbone connections available to GRUCom are combined and resold either as dedicated access or retail dial-up Internet services. GRUCom provides Internet transport services to the University of Florida, and has a peering arrangement with the University for the exchange of Internet traffic.

The public radio system employs a Motorola 821 MHz simulcast system configured with five (5) transmit and receive tower sites including 22 simulcast voice, 6 data frequencies, and 2 additional mutual aid channels.

Capital Improvement Program

The capital improvement program for GRUCom calls for expenditures of \$33,441,000 between the fiscal years ending September 30, 2008 through 2013, inclusive. The GRUCom capital improvement requirements represent an estimate since they are dependent on customer growth and new product decisions. A breakdown of the categories included in the six-year capital improvement program is presented below.

GRUCom Capital Improvement Program

	Fiscal Years ending September 30,						Total
	2008	2009	2010	2011	2012	2013	
	(dollars in thousands)						
Fiber Optic Expansion	\$6,926	\$3,768	\$2,917	\$4,002	\$5,327	\$5,616	\$28,556
General Plant	261	199	173	257	172	172	1,234
Miscellaneous and Contingency	1,640	1,463	307	81	79	81	3,651
Total	<u>\$8,827</u>	<u>\$5,430</u>	<u>\$3,397</u>	<u>\$4,340</u>	<u>\$5,578</u>	<u>\$5,869</u>	<u>\$33,441</u>

RATES

General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. Under Chapter 366, Florida Statutes, the FPSC has jurisdiction over municipal electric utilities only to prescribe uniform systems and classifications of accounts, to require electric power conservation and reliability, to regulate electric impact fees, to establish rules and regulations regarding cogeneration, to approve territorial agreements, to resolve territorial disputes, to prescribe rate structures, to prescribe and enforce safety standards for transmission and distribution facilities and to prescribe and require the periodic filing of reports and other data. Pursuant to the rules of the FPSC, rate structure is defined as "... the classification system used in justifying different rates and, more specifically...the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates. The FPSC has not asserted any jurisdiction over the rates or rate structure of the System. The FPSC also has the authority to determine the need for certain new transmission and generation

facilities. The governing bodies of municipal water, wastewater and natural gas utilities have exclusive jurisdiction over the setting of rates for said systems, subject only to certain statutory restrictions upon water and wastewater rates outside the municipal corporate limits.

The City Commission’s sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates to comply with the rate covenants in the Resolution. See “SECURITY FOR THE BONDS – Rate Covenant” herein. Future projected rate changes provided in this Official Statement have been developed by System staff based on the most recent forecasts and operation projections available.

Electric System

The table below presents electric system base rate changes since 2003 and the most recent projected rate changes.

**Electric System Rate Changes
Base Rate Revenue Change
(Excluding Fuel Adjustment)**

<u>Rate Changes</u>	<u>Base Rate Percent Increase (Decrease)</u>
Historical	
October 1, 2003	None
October 1, 2004	None
October 1, 2005	3.00% ⁽¹⁾
October 1, 2006	13.50 ⁽²⁾
October 1, 2007	11.00
Projected ⁽³⁾	
October 1, 2008	7.00%
October 1, 2009	4.00
October 1, 2010	3.50
October 1, 2011	3.00
October 1, 2012	3.00

- (1) Overall system rate increase of 3%. Customer Charge for all classes increased by 5%. The Residential and General Service Non-Demand Classes have a two tier rate structure. For each class the second rate tier was increased with no increase to the first tier. General Service demand and Large Power Classes demand charges were increased while energy charges remained unchanged.
- (2) Overall system rate increase of 13.5%. The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per kWh for all customer classes and a third residential tier was added. Breaks in residential tiers changed to 0-250, 251-750 and above 750 kWh usage, with higher rates in the second and third tiers to promote conservation. Similar increases were made to commercial kWh and kW charges.
- (3) All changes in the System’s rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System’s annual budget.

The System’s rates for electric service also embody a fuel adjustment clause which provides for increases or decreases in the charge for electric energy to cover increases or decreases in the cost of fuel to the extent such cost varies from a predetermined base of 6.5 [mills] per kWh. The current fuel adjustment formula is a one-month forward-looking projected formula which is based on last-in, first-out (“LIFO”) accounting of fuel inventory.

Although the rates of the System are not subject to federal regulation, the National Energy Act of 1978 contains provisions which required the City to hold public proceedings to consider and determine the appropriateness of adopting certain enumerated federal standards in connection with the establishment of its retail electric rates. Such proceedings have been completed and the results currently are reflected in the System's policies and electric rate structure.

The Business Partners Rate Discount Program (the "Business Partners Program"), was a program instituted in 1997 as part of a strategy to prepare for retail deregulation. The program provided discounts on the non-fuel portions of participating commercial customers' electric bills. In return, customers commit to the System as their exclusive provider of electric power for ten (10) years or until they cease to conduct business within the System's electric service area. The agreements provided for a "buy-out" clause which raised a significant financial hurdle for switching energy suppliers. Effective June 1, 2002, the discounts for the General Service Demand and Large Power rate classes were increased and in order obtain these increased discounts, customers were required to execute a new Business Partners Program agreement for a ten-year term. As of October 1, 2006, no new Business Partner Contracts have been entered into. Contracts already in effect will be honored until expiration date, which for a majority of customers will be 2012. The expiration of these contracts will tend to offset revenue requirement increase in the future.

In 2006 the City Commission ratified a revised three-tier structure for residential rates. This structure reflects a lower rate for low quantity users, rewarding customers who conserve and assisting low use, low income customers.

Public streets in Gainesville and in the unincorporated areas of the County within the System's service territory are lit by streetlights served by the System, which bills the appropriate jurisdiction for payment. Currently the City of Gainesville General Fund pays for streetlights in Gainesville. Pursuant to a 1990 agreement, the City of Gainesville General Fund reimburses the Board of County Commissioners of the County to, in effect, pay for the streetlights in the unincorporated areas served by the System.

Rates and Charges for Electric Service

The current electric rates, which became effective as of October 1, 2007, are provided below by class of service. Though the rates are functionally unbundled, they are presented to the customer for billing purposes in a rebundled format.

Residential Standard Rate

Customer charge, per month.....	\$5.54
First 250 kWh, Total charge per kWh	\$0.025
251 – 750 kWh, Total charge per kWh	\$0.065
All kWh per month over 750, Total charge per kWh	\$0.097

Residential Optional Time-of-Use Rate

Customer charge, per month.....	\$9.36
Energy charge:	
All energy used on-peak, per kWh.....	\$0.11
All energy used off-peak, per kWh.....	\$0.0325

Peak periods shall be as follows:

Summer peaks: May 15 through October 15, 12:00 noon through 9:00 p.m., weekends and holidays included.

Winter peaks: January 1 through February 28, 7:00 a.m. through 11:00 a.m. and 6:00 p.m. through 10:00 p.m., weekends and January 1 are excluded.

Off-peak periods shall be all periods not included in peak periods

Non-Residential General Service Non-Demand Rates (before Business Partners Program discounts, if applicable)

Customers in this class have not established a demand of 50 kW or greater. Charges for electric service are:

Customer charge, per month.....	\$16.00
First 1,500 kWh per month, Total charge per kWh.....	\$0.062
All kWh per month over 1,500, Total charge per kWh.....	\$0.080

Non-Residential General Service Demand Rates (before Business Partners Program discounts, if applicable)

Customers in this class have established a demand of between 50 and 1,000 kW. Charges for electric service are:

Customer charge, per month.....	\$33.00
Total Demand charge, per kW.....	\$9.00
Total Energy charge, per kWh.....	\$0.029

Non-Residential Large Power Rates (before Business Partners Program discounts, if applicable)

Customers in this class have established a demand of 1,000 kW or greater. Charges for electric service are:

Customer charge, per month.....	\$265.00
Total Demand charge, per kW.....	\$ 9.00
Total Energy charge, per kWh.....	\$ 0.027

Customers in all classes are charged a fuel adjustment. All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. All non-exempt customers residing within the City's corporate limits pay a City utility tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits are assessed a surcharge of 10% and also pay a County utility tax of 10% on portions of their bill. All non-residential taxable customers pay a State sales tax of 7% on portions of their bill. The minimum bill is the customer charge plus any applicable demand charge. The billing demand is defined as the highest demand (integrated for thirty minutes) established during the billing month. The City's rate ordinance also includes clauses providing for primary service metering discounts and facilities leasing adjustment.

Comparison with Other Utilities

As shown in the table below, the average monthly bills for electric service are competitive with other Florida electric utilities. The System's average annual use per residential customer was 10,698 kWh in the fiscal year ended September 30, 2007.

Comparison of Monthly Electric Bills (1)

	Residential 1,000 kWh	General Service(2)		Large Power(2)
		Non-Demand 1,500 kWh	Demand 30,000 kWh 75 kW	430,000 kWh 1,000 kW
JEA	\$ 88.33	\$126.02	\$2,189.90	\$30,102.40
Clay Electric Cooperative.....	95.10	145.65	2,446.75	33,103.00
Orlando Utilities Commission	97.95	152.74	2,418.90	44,119.88
Florida Power & Light.....	99.82	162.74	3,052.90	35,676.95
Ocala Electric	106.80	156.70	2,617.95	36,797.70
Progress Energy Florida	107.58	161.93	2,664.87	37,919.81
Ft. Pierce.....	110.00	163.25	2,397.53	34,202.40
Gainesville Regional Utilities	110.92	166.51	2,749.04	37,588.17
Tampa Electric.....	111.68	171.60	2,804.55	39,073.60
Lakeland	121.82	187.03	3,110.70	43,218.40
City of Tallahassee	137.44	186.26	3,165.93	43,986.23

Source: Prepared by the Strategic Planning Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

- (1) Rates for GRU are based on the monthly bill for October 2007 and for the other utilities for April 2007, ranked by residential bills. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.
- (2) The System's bills in this Table assume participation in the Business Partners Program. See "RATES—Electric System" herein.

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Natural Gas System

The table below gives the results of natural gas system base rate increases since 2003 and the most recent projected rate changes.

**Natural Gas System Rate Changes
Base Rate Change
(Excluding Purchased Gas Adjustment)⁽¹⁾**

<u>Rate Changes</u>	<u>Base Rate Percent Increase</u>
Historical	
October 1, 2003	2.00% ⁽²⁾
October 1, 2004	None
October 1, 2005	None
October 1, 2006	None
October 1, 2007	11.00
Projected ⁽³⁾	
October 1, 2008	9.00%
October 1, 2009	6.50
October 1, 2010	5.50
October 1, 2011	5.00
October 1, 2012	4.00

- (1) A separate charge for remediation of the MGP site was implemented in 2002. For additional information on the MGP site, see "THE NATURAL GAS SYSTEM—Manufactured Gas Plant" herein.
- (2) In addition to the base rate increase indicated in the table, the rate for the separate charge for remediation of the MGP site was increased from 0.0207 to 0.0321.
- (3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

The System's tariffs for natural gas service also embody a purchased gas adjustment clause which provides for increases or decreases in the charge for natural gas to cover increases or decreases in the cost of gas delivered to the System. The current purchased gas adjustment formula is a one-month forward-looking projected formula, which is based on LIFO accounting of fuel cost.

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Rates and Charges for Natural Gas Service

The current natural gas rates, which were effective as of October 1, 2007, are provided below by class of service:

Residential Service Rate	
Customer Charge	\$7.15 per month
Non-Fuel Energy Charge	\$0.4561 per therm
General Firm Service Rate	
Customer Charge	\$19.89 per month
Non-Fuel Energy Charge	\$0.302 per therm
Interruptible Service Rate	
Customer Charge	\$360.00 per month
Non-Fuel Energy Charge	\$0.238 per therm
Large Volume Interruptible Rate	
Customer Charge	\$360.00 per month
Energy Charge	\$0.152 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	\$0.03210 per therm

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor (“MGPCRF”). All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. All non-exempt customers residing within the City’s corporate limits pay a City tax of 10% on portions of their bill. All non-exempt customers not residing within the City’s corporate limits pay a 10% County utility tax on portions of their bill and a 10% surcharge on portions of their bill. All non-residential taxable customers pay a State sales tax of 6% on portions of their bill. For firm customers, the minimum bill equals the customer charge. For interruptible customers, the minimum bill equals the customer charge, plus a minimum billing volume as specified by contract.

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Comparison with Other Utilities

The System's average charges for the month of April 2007 are compared to those for ten other municipal and private natural gas companies in the following table. The System's gas rates are among the lowest in the State.

Comparison of Monthly Natural Gas Bills⁽¹⁾

	<u>Residential 35 therms</u>	<u>General Firm 300 therms</u>	<u>Interruptible 30,000 therms</u>
Okaloosa Gas District.....	\$ 54.94	\$430.89	\$35,033.68
Gainesville Regional Utilities	57.35	397.87	36,460.80
City of Tallahassee	62.91	501.58	41,266.85
Pensacola	68.09	526.82	40,053.69
Kissimmee ⁽²⁾	70.39	489.53	41,500.23
Lakeland ⁽²⁾	70.39	489.53	41,500.23
Orlando ⁽²⁾	70.39	489.53	41,500.23
Tampa ⁽²⁾	70.39	489.53	41,500.23
City of Sunrise	74.27	517.35	39,620.79
Ft. Pierce.....	104.38	749.27	67,666.00

Source: Prepared by the Strategic Planning Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

- (1) Rates for GRU based on the average of monthly bills in October 2007 and for the other utilities in April 2007 (excludes all taxes and franchise fees). Sorted in ascending order by residential charges.
- (2) Service provided by People's Gas.

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Water and Wastewater System

The table below provides the water system rate changes since 2003 and the most recent projected rate changes.

Water System Rate Changes

<u>Rate Changes⁽¹⁾</u>	Percentage Rate Increase (Decrease)
Historical	
October 1, 2003	3.00%
October 1, 2004	6.40 ⁽¹⁾
October 1, 2005	15.00 ⁽²⁾
October 1, 2006	25.00 ⁽³⁾
October 1, 2007	13.00
Projected ⁽⁴⁾	
October 1, 2008	9.50%
October 1, 2009	7.00
October 1, 2010	6.00
October 1, 2011	2.00
October 1, 2012	None

- (1) In October 2004, inverted block rate structure applied to residential sales on year-round basis, no longer only during April-October. University of Florida charges became cost of service study based. On-campus charges increased by 15% and off-campus charges increased by 12%.
- (2) In October 2005, University of Florida on-campus charges increased by 11% and off-campus charges increased by 8.41%.
- (3) The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per 1,000 gallons in all customer classes and all three residential tiers, with a greater increase to the second and third tiers to promote conservation. The commercial non-tiered rate was increased to be equal to the second tier of the residential rate.
- (4) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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The table below gives the results of wastewater system rate changes since 2003 and the most recent projected rate changes.

Wastewater System Rate Changes

<u>Rate Changes⁽¹⁾</u>	<u>Percentage Rate Increase</u>
Historical	
October 1, 2003	3.00%
October 1, 2004	5.25
October 1, 2005	15.00
October 1, 2006	25.00 ⁽²⁾
October 1, 2007	17.00
Projected ⁽³⁾	
October 1, 2008	11.00%
October 1, 2009	7.00
October 1, 2010	3.00
October 1, 2011	1.00
October 1, 2012	1.00

- (1) The rate changes only affect the customer billing charge and the per thousand gallon rate charged customers, unless stated otherwise.
- (2) For fiscal year 2007, revenue requirements for the Wastewater System increased by 25%. The customer charge for all customer classes was increased to reflect the cost of service and all customers, both residential and commercial, pay the same rate per 1,000 gallons billed.
- (3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

Total water and wastewater system revenues are derived from two basic types of charges which reflect costs: (a) monthly service charges and (b) connection charges. The present rate and charges schedule, together with other revenues for the water and wastewater systems, provides sufficient funds to meet all operation and maintenance expenses, prorated debt service, and internally generated capital expense. The connection charges are designed to provide for the capital costs associated with water and wastewater system expansion. Growth in retail revenues due to projected customer growth provides for all other increased costs.

Residential water rates were amended in April 2001 to incorporate a third tier into the seasonal inverted block rate structure. Residential customers originally paid a flat rate per thousand gallons during the billing months of November through March. During the billing months of April through October (the irrigation season), residential customers were subject to the inverted block rate. Under this structure 0-9,000 gallons is equal to the flat rate charge for November through March. The second tier, usage greater than 9,000 gallons but less than 25,000 gallons, is billed at a rate 65.5% greater than the flat rate. The third tier, all usage 25,000 gallons and above, is billed at a rate 71.9% higher than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users. On October 1, 2004, the residential inverted block rate was charged in all months, no longer seasonally.

The University of Florida is charged different rates than other customers, because of the City's commitment not to receive general fund transfers from sales to the University of Florida and because the University of Florida owns and maintains its own on-campus water distribution system. The general fund