PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER __, 2010

NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, interest on the Taxable 2010 Series A Bonds and the Taxable 2010 Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Series C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the 2010 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion as to whether some or all interest on the 2010 Series C Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series A, B and C Bonds. See "TAX MATTERS" herein.

$162,370,000*
City of Gainesville, Florida
Utilities System Revenue Bonds

$12,940,000*
2010 Series A
(Federally Taxable)

$132,375,000*
2010 Series B
(Federally Taxable – Issuer Subsidy – Build America Bonds)

$17,055,000*
2010 Series C

GRU℠
More than Energy™

Dated: Date of Delivery **Due: October 1, as shown on the inside cover page**

The Utilities System Revenue Bonds, 2010 Series A (Federally Taxable) (the "Taxable 2010 Series A Bonds"), the Utilities System Revenue Bonds, 2010 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Taxable 2010 Series B Bonds") and the Utilities System Revenue Bonds, 2010 Series C (the "2010 Series C Bonds" and, together with the Taxable 2010 Series A Bonds and the Taxable 2010 Series B Bonds, the "2010 Series A, B and C 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 2010 Series A, B and C Bonds. Individual purchases of 2010 Series A, B and C Bonds will be made in book-entry form only in the principal amount of $5,000 or any integral multiple thereof. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

The Taxable 2010 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"), (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds and (c) to pay costs of issuance of the Taxable 2010 Series A Bonds, as more particularly described herein. The Taxable 2010 Series B Bonds are being issued by the City (a) to pay a portion of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds and (c) to pay costs of issuance of the Taxable 2010 Series B Bonds, as more particularly described herein. The 2010 Series C Bonds are being issued by the City (a) to refund certain of the City's outstanding Utilities System Revenue Bonds more particularly described herein and (b) to pay costs of issuance of the 2010 Series C Bonds.

The 2010 Series A, B and C Bonds bear interest from their dated date payable each April 1 and October 1, commencing April 1, 2011.

The 2010 Series A, B and C Bonds are subject to redemption prior to maturity as described herein.

MATURITY SCHEDULE – See Inside Cover Page

The 2010 Series A, B and C 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 2010 Series A, B and C Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., City Attorney, and for the Underwriters by Nixon Peabody LLP, New York, New York. It is expected that the 2010 Series A, B and C Bonds in definitive form will be available for delivery to DTC in New York, New York on or about November __, 2010.

Goldman, Sachs & Co.

Barclays Capital **Jefferies & Company** **J.P. Morgan**

November __, 2010

* Preliminary, subject to change.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND CUSIP NUMBERS[†]

$12,940,000*
Utilities System Revenue Bonds,
2010 Series A
(Federally Taxable)

$12,940,000* ____% Term Bonds Due October 1, 2030* – Price ___%
(CUSIP Number _____[†])

$132,375,000*
Utilities System Revenue Bonds,
2010 Series B
(Federally Taxable – Issuer Subsidy – Build America Bonds)

$132,375,000* ____% Term Bonds Due October 1, 2040* – Price ___%
(CUSIP Number _____[†])

$17,055,000*
Utilities System Revenue Bonds,
2010 Series C

$5,900,000* Serial Bonds

Maturity (October 1)*	Amount*	Interest Rate	Price	CUSIP
2015	$1,065,000			
2016	1,120,000			
2017	1,175,000			
2018	1,240,000			
2019	1,300,000			

$11,155,000* ____% Term Bonds Due October 1, 2034* – Price ___%
(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 2010 Series A, B and C 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 2010 Series A, B and C Bonds or as indicated above.

* Preliminary, subject to change.

CITY OF GAINESVILLE, FLORIDA

CITY OFFICIALS

Craig Lowe ..... Mayor
Jeanna Mastrodicasa ..... Mayor Pro-Tem, Commissioner
Sherwin L Henry ..... Commissioner
Warren F. Nielsen. ..... Commissioner
William Thomas Hawkins ..... Commissioner
Randy M. Wells ..... Commissioner
Lauren Poe ..... Commissioner

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

Utilities System

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

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CONSULTANTS

Orrick, Herrington & Sutcliffe LLP
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 2010 Series A, B and C 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 2010 Series A, B and C Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do 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.

THE UNDERWRITERS HAVE ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE 2010 SERIES A, B AND C BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2010 SERIES A, B AND C BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Official Statement

relating to

$162,370,000*
City of Gainesville, Florida
Utilities System Revenue Bonds

**$12,940,000*
2010 Series A
(Federally Taxable)**

**$132,375,000*
2010 Series B
(Federally Taxable – Issuer Subsidy – Build America Bonds)**

**$17,055,000*
2010 Series C**

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 $12,940,000* Utilities System Revenue Bonds, 2010 Series A (Federally Taxable) (the "Taxable 2010 Series A Bonds"), its $132,375,000* Utilities System Revenue Bonds, 2010 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the "Taxable 2010 Series B Bonds"; the Taxable 2010 Series A Bonds and the Taxable 2010 Series B Bonds are collectively referred to herein as the "Taxable 2010 Series A and B Bonds") and its $17,055,000* Utilities System Revenue Bonds, 2010 Series C (the "2010 Series C Bonds"; the 2010 Series C Bonds and the Taxable 2010 Series A and B Bonds are collectively referred to herein as the "2010 Series A, B and C 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 City is issuing the Taxable 2010 Series A Bonds (a) to provide funds for the payment of a portion 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" or "Gainesville Regional Utilities" ("GRU")), (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds and (c) to pay costs of issuance of the Taxable 2010 Series A Bonds. The City is issuing the Taxable 2010 Series B Bonds (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds and (c) to pay costs of issuance of the Taxable 2010 Series B Bonds. The City is issuing the 2010 Series C Bonds (a) to refund certain of the City's outstanding Utilities System Revenue Bonds more particularly described in "PLAN OF FINANCE" herein and (b) to pay costs of issuance of the 2010 Series C Bonds. See "PLAN OF FINANCE" and "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 2010 Series A, B and C 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 Twenty-Third Supplemental Utilities System Revenue Bond Resolution (the "Twenty-Third Supplemental Resolution"), authorizing the 2010 Series A, B and C Bonds, adopted by the City on November __, 2010; Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank Trust National Association (formerly First

* Preliminary, subject to change.

Trust of New York, National Association) currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2010 Series A, B and C 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, 2009, there were $824,680,000 aggregate principal amount of bonds Outstanding under (and as defined in) the Resolution. The 2010 Series A, B and C Bonds, the bonds to be outstanding after the date of issuance of the 2010 Series A, B and C 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 2010 Series A, B and C Bonds, see "PLAN OF FINANCE," "OUTSTANDING DEBT" and "ADDITIONAL FINANCING REQUIREMENTS" herein.

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 twelve-month period. Additional Bonds may be issued under the Resolution on a parity with the 2010 Series A, B and C Bonds subject to certain conditions provided in the Resolution.

In addition to its Outstanding Bonds, as of October 1, 2010, 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, 2009, the electric system, which served an average of 93,129 residential, industrial and commercial customers (representing approximately 74% of the population of the County), accounted for approximately 73.4% of gross revenues and approximately 62.3% of net revenues of the System. The System owns and operates three generating stations, having a combined net summer capability of approximately 596.4 megawatts ("MW"), and owns an 11.8 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, 2009, the System's fuel mix was as follows: coal 70.1%; natural gas 22.9%; nuclear 5.2%; and oil 1.8%, as a percentage of net generation. For the fiscal year ended September 30, 2009, the System's fuel mix was as follows: coal 70.7%; natural gas 23.1%; nuclear 5.9%; and oil 0.3%, as a percentage of net generation.

The natural gas distribution system, which served an average of 33,451 customers during the fiscal year ended September 30, 2009, accounted for approximately 7.2% of gross revenues and approximately 5.6% of net revenues of the System and is comprised of 741 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from six delivery points interconnected with facilities of the Florida Gas Transmission Company ("FGT").

The water system, which served an average of 69,496 customers during the fiscal year ended September 30, 2009, accounted for approximately 7.8% of gross revenues and approximately 12.6% of net revenues of the System. 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 62,071 customers during the fiscal year ended September 30, 2009, accounted for approximately 8.9% of gross revenues and approximately 15.7% of net revenues of the System. 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 341 miles of fiber optic cable, fourteen antenna sites, and associated network equipment. As of September 30, 2009, GRUCom provided broadband data and Internet services to 5,421 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, 2009, GRUCom accounted for approximately 2.6% of gross revenues and approximately 3.8% of net revenues of the System.

Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate to be executed by the City simultaneously with the delivery of the 2010 Series A, B and C 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 2010 Series A, B and C 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, 2010 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2010 Series A, B and C Bonds, if material. The Annual Report and the notices of such material events will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB"). Until otherwise designated by the MSRB or the United States Securities and Exchange Commission (the "SEC"), filings with the MSRB are to be made through the MSRB's EMMA website, currently located at http://emma.msrb.org. 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 H. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

As will be 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 2010 Series A, B or C Bonds will be 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" will be defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in 2010 Series A, B or C 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 WILL BE THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A "BENEFICIAL OWNER" WITHIN THE MEANING OF THE CONTINUING DISCLOSURE CERTIFICATE.

As described in APPENDIX A hereto, upon initial issuance, the 2010 Series A, B and C Bonds will be issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2010 Series A, B and C Bond for each series and maturity (and, if applicable, each interest rate within a maturity), in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC's current procedures with respect to the enforcement of bondholders' rights, see "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

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.

Other

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2010 Series A, B and C Bonds, the System, the City, the County, the Resolution and certain financial statements. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City or its Financial Advisor.

PLAN OF FINANCE

The Taxable 2010 Series A Bonds will be issued (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds and (c) to pay costs of issuance of the Taxable 2010 Series A Bonds. The Taxable 2010 Series B Bonds will be issued (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds and (c) to pay costs of issuance of the Taxable 2010 Series B Bonds. The 2010 Series C Bonds will be issued (a) to provide a portion of the funds required to refund the City's Utilities System Revenue Bonds, 2003 Series A listed in the table below (the "Refunded 2003 Bonds") and the City's Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) listed in the table below (the "Refunded 2008 Bonds") and (b) to pay costs of issuance of the 2010 Series C Bonds.

Series	Maturity Date (October 1)	Interest Rate	Amount to be Refunded	Redemption Date	Redemption Price (expressed as a percentage of principal amount)
2003 Series A	2015	5.250%	$1,065,000	October 1, 2013	100%
2003 Series A	2016	5.250	1,120,000	October 1, 2013	100
2003 Series A	2017	5.250	1,180,000	October 1, 2013	100
2003 Series A	2018	5.250	1,245,000	October 1, 2013	100
2003 Series A	2019	5.250	1,310,000	October 1, 2013	100
2008 Series A	2011	3.480	5,580,000	December 2, 2010	*
2008 Series A	2012	3.940	5,765,000	December 2, 2010	*
2008 Series A	2013	4.190	5,975,000	December 2, 2010	*

* In accordance with the terms of the Refunded 2008 Bonds, the Refunded 2008 Bonds of each maturity are subject to redemption prior to maturity at the election of the City, in whole or in part, on any date, at a "make-whole" redemption price determined in the manner set forth therein, which redemption prices are to be determined on the tenth (10th) day (or, if such day is not a business day, the next preceding business day) preceding such redemption date. On October 29, 2010, the Trustee gave notice of redemption to the holders of the Refunded 2008 Bonds on behalf of the City, calling such Bonds for redemption on December 2, 2010. As permitted by the terms of the Resolution and the Refunded 2008 Bonds, such call for redemption is revocable and is conditioned upon the issuance by the City of the 2010 Series C Bonds on or prior to November 26, 2010. As a result of such call for redemption, the redemption prices of the Refunded 2008 Bonds of each maturity will be determined on November 22, 2010.

The City will select the particular Bonds to be refunded at or about the time of the pricing of the 2010 Series C Bonds and such selection will be based upon, among other things, market conditions existing at such time. No assurance can be given as to which Bonds will be finally selected for refunding, and the Bonds finally selected may not include all of the Bonds shown above and may include other Bonds.

A portion of the proceeds of the 2010 Series C Bonds, together with other available funds of the System, will be deposited with the Trustee pursuant to an Escrow Deposit Agreement (the "Escrow Deposit Agreement") to be entered into, at or prior to the issuance of the 2010 Series C Bonds, between the City and the Trustee. The amounts deposited with the Trustee under the Escrow Deposit Agreement will be invested in direct obligations of the United States of America ("Government Obligations"). The Government Obligations will mature at such times and in such amounts and will bear interest at such rates as will be sufficient, together with the uninvested cash held pursuant to the Escrow Deposit Agreement, (a) to pay when due interest on the Refunded 2003 Bonds on and prior to October 1, 2013 and (b) to pay the redemption price of the Refunded 2003 Bonds when due on October 1, 2013. The Government Obligations and moneys deposited with the Trustee pursuant to the Escrow Deposit Agreement will be deposited in an irrevocable escrow account established under the Escrow Deposit Agreement (the "Escrow Account") and pledged to secure the payment of the redemption price of and interest on the Refunded 2003 Bonds. Upon such deposit of Government Obligations and moneys in the Escrow Account and compliance with other provisions of the Resolution, the Refunded 2003 Bonds will be deemed paid and will cease to be entitled to any lien, benefit or security under the Resolution and all covenants, agreements and obligations of the City to the holders of the Refunded 2003 Bonds shall cease, terminate and become void and be discharged and satisfied.

The accuracy of the mathematical computations of the adequacy of the principal of and interest on the Government Obligations and the moneys to be on deposit in the Escrow Account to provide for the payment when due of the interest on and the redemption price of the Refunded 2003 Bonds will be verified at the time of delivery of the 2010 Series C Bonds by Dufresne & Associates, CPA, PA. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

The City does not intend to defease the Refunded 2008 Bonds within the meaning and with the effect expressed in the Resolution. Accordingly, the Refunded 2008 Bonds will not cease to be Outstanding under the Resolution upon the issuance of the 2010 Series C Bonds, and will remain Outstanding until redeemed on the redemption date therefor indicated in the table above.

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

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SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the 2010 Series A, B and C Bonds are estimated to be as follows:

Sources of Funds

Principal Amount of 2010 Series A, B and C Bonds	$
Plus: Original Issue Premium (net of Discount)	
Amounts Available from Debt Service Account in Debt Service Fund Established under the Resolution	
Other Available Funds of the System	
Total Sources	$

Uses of Funds

Deposit to Escrow Account	$
Deposit to Construction Fund[(1)]	
Payment of costs of issuance, including underwriters' discount	
Total Uses	$

(1) Includes amounts expected to be sufficient, together with interest earnings thereon, to pay (a) the interest to become due on the Taxable 2010 Series A Bonds through October 1, 2012 and (b) the interest to become due on the Taxable 2010 Series B Bonds through October 1, 2012, other than that portion of such interest that the City expects to receive as cash subsidy payments from the United States Treasury (see "THE 2010 SERIES A, B AND C BONDS – Designation of the Taxable 2010 Series B Bonds as 'Build America Bonds'" herein).

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OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2010.

Outstanding Debt of the City Issued for the System

Description	Interest Rates	Due Dates (October 1)	As of October 1, 2010 (Unaudited) Principal Outstanding	Principal to be Outstanding After Issuance of 2010 Series A, B and C Bonds
Utilities System Revenue Bonds				
Series 1983	6.00%	2014	$ 4,675,000	$ 4,675,000
1992 Series B	6.50 – 7.50%	2011-2013	13,530,000	13,530,000
2003 Series A	4.625 – 5.25%	2015-2033	7,525,000	2,670,000*
2003 Series B (federally taxable)	4.40%	2011-2013	2,640,000	2,640,000
2003 Series C	2.75 – 5.00%	2011-2013	45,080,000	45,080,000
2005 Series A	4.75 – 5.00%	2021-2036	91,820,000	91,820,000
2005 Series B (federally taxable)	5.14 – 5.31%(1)(2)	2011-2021	58,345,000	58,345,000
2005 Series C	Variable(1)(3)	2011-2026	52,135,000	52,135,000
2006 Series A	Variable(1)(4)	2011-2026	50,415,000	50,415,000
2007 Series A	Variable(1)(5)	2011-2036	138,740,000	138,740,000
2008 Series A	2.98 – 5.27%	2011-2020	92,485,000	92,485,000(9)
2008 Series B	Variable(1)(6)	2022-2038	90,000,000	90,000,000
2009 Series A (federally taxable)	0.850 – 3.589%	2011-2015	20,390,000	20,390,000
2009 Series B (federally taxable)	3.589 – 5.655%	2015-2039	156,900,000	156,900,000
2010 Series A (federally taxable)			–	12,940,000*
2010 Series B (federally taxable)			–	132,375,000*
2010 Series C			–	17,055,000*
Total Utilities System Revenue Bonds			$824,680,000	$982,195,000
Utilities System Commercial Paper Notes				
Series C	Variable(1)(7)	(8)	$ 62,000,000	$ 62,000,000
Total Subordinated Bonds			$ 62,000,000	$ 62,000,000

* Preliminary, subject to change.

(1) See Note 4 to the audited financial statements of the System for the fiscal years ended September 30, 2009 and 2008 included as APPENDIX B to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.

(2) 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 was $45,000,000, which corresponded 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 "Aa1" from Moody's Investors Service ("Moody's") and a counterparty credit rating of "AAA" from Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("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 one-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 D hereto).

(footnotes continue on following page)

(3) 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 "Aa1" from Moody's and a counterparty credit rating of "AA-" 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 ten-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 D hereto).

(4) 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 "Aa1" 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 ten-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" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(5) 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 "Aa1" 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" and "– Provisions Concerning Qualified Hedging Contracts" in APPENDIX D hereto).

(6) The City has entered into two floating-to-fixed rate interest rate swap transactions with respect to the 2008 Series B Bonds (the "2008 Series B Swap Transactions"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa1" from Moody's and a financial program rating of "AA-" from S&P, and a counterparty risk rating of "Aa1" from Moody's and a financial program rating of "AA-" from S&P, respectively. The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to fix synthetically the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions 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 D hereto).

(7) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "Series C CP Notes Swap Transaction") with respect to a portion of the Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "A2" from Moody's and a financial program rating of "A" from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes 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 Series C CP Notes Swap Transaction is to fix synthetically the interest rate on a portion of the Series C CP Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C CP Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution (see "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions" in APPENDIX D hereto), so all amounts owed by the City under the Series C CP Notes 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.

(8) The Utilities System Commercial Paper Notes, Series C will mature no more than 270 days from their date of issuance, but in no event later than October 5, 2022.

(9) A portion of the proceeds of the 2010 Series C Bonds, together with other available funds of the System, are expected to be applied to redeem $17,320,000* in aggregate principal amount of the 2008 Series A Bonds on December 2, 2010. See "PLAN OF FINANCE" herein.

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* Preliminary, subject to change.

APPENDIX E hereto shows (a) existing debt service requirements, including sinking fund installments, on the Outstanding Bonds, (b) the debt service requirements on the 2010 Series A, B and C Bonds and (c) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2010 Series A, B and C Bonds.

ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program, as shown in the table below, requires a total of approximately $539,507,000 in capital expenditures and $3,822,000 for issuance costs between 2010 and 2015, inclusive, for total capital improvement program costs of $543,329,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately $191,135,000 of future additional Bonds, including the 2010 Series A, B and C Bonds, and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects to issue in 2011 and 2015. 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,						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2010-2015**
Cash Balance October 1,	$201,598,000	$147,504,000	$176,012,000	$ 89,501,000	$ 79,818,000	$ 12,711,000	$ 707,144,000
Source of Funds:							
Bond Financing	–	143,635,000	–	–	–	$47,500,000	191,135,000
Revenues	38,323,000	31,056,000	–	63,757,000	–	70,369,000	203,505,000
Interest Earnings	2,180,000	3,481,000	1,907,000	1,877,000	265,000	1,110,000	10,820,000
Total Sources	$242,101,000	$325,676,000	$177,919,000	$155,135,000	$80,083,000	$131,690,000	$1,112,604,000
Use of Funds:							
Construction Projects:							
Electric	$49,779,000	$73,041,000	$49,800,000	$40,105,000	$ 35,852,000	$38,423,000	$ 287,000,000
Gas	16,161,000	17,087,000	5,758,000	5,417,000	5,868,000	6,114,000	56,405,000
Water	9,991,000	18,068,000	9,605,000	7,819,000	7,939,000	7,706,000	61,128,000
Wastewater	12,145,000	27,388,000	16,950,000	16,243,000	11,808,000	8,690,000	93,224,000
GRUCom	6,521,000	11,208,000	6,305,000	5,733,000	5,905,000	6,078,000	41,750,000
Total Construction	$94,597,000	$146,792,000	$88,418,000	$ 75,317,000	$ 67,372,000	$ 67,011,000	$ 539,507,000
Issuance Costs	–	2,872,000	–	–	–	950,000	3,822,000
Total Uses	$94,597,000	$149,664,000	$88,418,000	$ 75,317,000	$ 67,372,000	$ 67,961,000	$ 543,329,000
Cash Balance September 30,	$147,504,000	$176,012,000	$ 89,501,000	$ 79,818,000	$12,711,000	$ 63,729,000	$ 569,275,000

SECURITY FOR THE BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2010 Series A, B and C 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 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 2010 Series A, B and C 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 2010 Series A, B and C 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 2010 Series A, B and C Bonds or the making of any payments under the Resolution. The 2010 Series A, B and C 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 2010 Series A, B and C 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 twelve-month period. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Rate Covenant" in APPENDIX D 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 twelve consecutive months within the eighteen 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. The subsidy payments that are expected to be received by the City from the federal government pursuant to the provisions of the Recovery Act (hereinafter defined) will constitute Revenues for purposes of the Resolution and will be deposited into the Revenue Fund and applied in accordance with the provisions of the Resolution discussed above. See "THE 2010 SERIES A, B AND C BONDS – Designation of the Taxable 2010 Series B Bonds as 'Build America Bonds'" herein.

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 D hereto.

THE 2010 SERIES A, B AND C BONDS

General

The Taxable 2010 Series A Bonds will be issued in the aggregate principal amount of $12,940,000*, the Taxable 2010 Series B Bonds will be issued in the aggregate principal amount of $132,375,000* and the 2010 Series C Bonds will be issued in the aggregate principal amount of $17,055,000*. The 2010 Series A, B and C 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 April 1 and October 1 of each year, commencing April 1, 2011, 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 2010 Series A, B and C 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" in APPENDIX A hereto.

Designation of the Taxable 2010 Series B Bonds as "Build America Bonds"

The City intends to elect to treat the Taxable 2010 Series B Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the City is entitled to receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35% of the interest payable on the Taxable 2010 Series B Bonds. Such cash subsidy payments received by the City will constitute Revenues for purposes of the Resolution, 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. No assurance can be given by the City of the receipt of such cash

* Preliminary, subject to change.

subsidy payments. **The City is obligated to make payments of the principal of and interest on the Taxable 2010 Series B Bonds whether or not it receives such cash subsidy payments.**

Redemption Provisions

Taxable 2010 Series A Bonds

***Make-Whole Optional Redemption*.** The Taxable 2010 Series A Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, and, if in part, in such order of maturity (and, if applicable, bearing interest at such rate(s)) as the City shall, in its sole discretion, direct (by *pro rata* pass-through distribution of principal within a maturity (and, if applicable, each interest rate within such maturity) in accordance with DTC procedures, or if DTC procedures do not allow for *pro rata* pass-through distribution of principal, by lot as described below), on any date, at the "Taxable 2010 Series A Make-Whole Redemption Price." The "Taxable 2010 Series A Make-Whole Redemption Price" is a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2010 Series A Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2010 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 2010 Series A Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (defined below) plus ___ basis points. The term "Treasury Rate" is defined in the Twenty-Third Supplemental Resolution to mean, with respect to any redemption date for a particular Taxable 2010 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 weighted average life of the applicable Taxable 2010 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 weighted average life of such Taxable 2010 Series A Bonds to be redeemed.
>
> "Comparable Treasury Price" means, with respect to any redemption date for a particular Taxable 2010 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., Barclays Capital Inc., Jefferies & Company, Inc. and J.P. Morgan Securities LLC, and their respective successors; provided, however, that if any of them ceases to be a Primary U.S. Government securities dealer in the City of New York (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 2010 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 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 2010 Series A Bonds of a maturity are to be redeemed, the Trustee will select the Taxable 2010 Series A Bonds to be redeemed from the outstanding Taxable 2010 Series A Bonds of such maturity (and, if applicable, interest rate(s) within such maturity) not previously called for redemption on a *pro rata* pass-through distribution of principal basis, provided that, so long as the Taxable 2010 Series A Bonds are held in book-entry only form, the selection for redemption of such Taxable 2010 Series A Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a *pro rata* pass-through distribution of principal basis, the Taxable 2010 Series A Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The portion of any Taxable 2010 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.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2010 Series A Bonds, it is the City's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined in APPENDIX A hereto) and such other intermediaries that may exist between the City and the Beneficial Owners (as such term is defined in APPENDIX A hereto) be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

***Sinking Fund Redemption*.** The Taxable 2010 Series A Bonds maturing October 1, 2030* 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 such Taxable 2010 Series A Bonds to be redeemed plus accrued interest, if any, to the redemption date:

2030* Maturity

Year*	Amount*	Year*	Amount*
2027	$3,625,000	2029	$3,945,000
2028	3,775,000	2030†	1,595,000

† final maturity

Taking into consideration the sinking fund redemptions set forth above, the average life of the Taxable 2010 Series A Bonds maturing October 1, 2030*, calculated from the date of delivery of such Bonds, is approximately ____ years.

The particular Taxable 2010 Series A Bonds maturing October 1, 2030* or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee (by *pro rata* pass-through distribution of principal within a maturity (and, if applicable, each interest rate within such maturity) in accordance with DTC procedures, or if DTC procedures do not allow for *pro rata* pass-through distribution of principal, by lot as described further under "*Taxable 2010 Series A Bonds – Make-Whole Optional Redemption*" above). So long as a book-entry system is used for determining ownership of the Taxable 2010 Series A Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of Taxable 2010 Series A Bonds maturing October 1, 2030* to be redeemed through mandatory sinking fund installments.

In determining the amount of Taxable 2010 Series A Bonds maturing October 1, 2030* to be redeemed with any sinking fund installment, there will be deducted the principal amount of any Taxable 2010 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 2010 Series A Bonds maturing October 1, 2030* are purchased or redeemed

* Preliminary, subject to change.

other than with moneys in the Debt Service Account, the Taxable 2010 Series A Bonds of such maturity so purchased or redeemed will be credited against the sinking fund installments for the Taxable 2010 Series A Bonds of such maturity 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 2010 Series A Bonds of such maturity so purchased or redeemed bears to the total amount of all such sinking fund installments to be credited, subject to the authorized denominations for the Taxable 2010 Series A Bonds.

Taxable 2010 Series B Bonds

Make-Whole Optional Redemption. The Taxable 2010 Series B Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, and, if in part, in such order of maturity (and, if applicable, bearing interest at such rate(s)) as the City shall, in its sole discretion, direct (by *pro rata* pass-through distribution of principal within a maturity (and, if applicable, each interest rate within such maturity) in accordance with DTC procedures, or if DTC procedures do not allow for *pro rata* pass-through distribution of principal, by lot as described below), on any date, at the "Taxable 2010 Series B Make-Whole Redemption Price." The "Taxable 2010 Series B Make-Whole Redemption Price" is a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2010 Series B Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2010 Series B 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 2010 Series B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (as such term is defined under "*Taxable 2010 Series A Bonds – Make-Whole Optional Redemption*" above, except that all references in such definition (and in the other related defined terms) set forth under such caption to the Taxable 2010 Series A Bonds shall be deemed to refer to the Taxable 2010 Series B Bonds) plus __ basis points.

If less than all of the Taxable 2010 Series B Bonds of a maturity are to be redeemed, the Trustee will select the Taxable 2010 Series B Bonds to be redeemed from the outstanding Taxable 2010 Series B Bonds of such maturity (and, if applicable, interest rate(s) within such maturity) not previously called for redemption on a *pro rata* pass-through distribution of principal basis, provided that, so long as the Taxable 2010 Series B Bonds are held in book-entry only form, the selection for redemption of such Taxable 2010 Series B Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a *pro rata* pass-through distribution of principal basis, the Taxable 2010 Series B Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The portion of any Taxable 2010 Series B 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.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2010 Series B Bonds, it is the City's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants and such other intermediaries that may exist between the City and the Beneficial Owners be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

Extraordinary Optional Redemption. The Taxable 2010 Series B Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, and, if in part, in such order of maturity (and, if applicable, bearing interest at such rate(s)) as the City shall, in its sole discretion, direct (by *pro rata* pass-through distribution of principal within a maturity (and, if applicable, each interest rate within such maturity) in accordance with DTC procedures, or if DTC procedures do not allow for *pro rata* pass-through distribution of principal, by lot as described below), on any date, following the occurrence of an "Extraordinary Event" (as defined herein), at a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2010 Series B Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2010 Series B 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 2010 Series B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (as such term is defined under "*Taxable 2010 Series A Bonds – Make-Whole Optional Redemption*" above, except that all references in such definition (and in the other related defined terms) set forth under such caption to the Taxable 2010 Series A Bonds shall be deemed to refer to the Taxable 2010 Series B Bonds) plus __ basis points.

An "Extraordinary Event" will have occurred if an Authorized Officer of the City (as defined in the Resolution) determines that a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986 (the "Code") (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds") or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the City to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which the City's 35% cash subsidy payment from the Unites States Treasury is reduced or eliminated.

If less than all of the Taxable 2010 Series B Bonds of a maturity are to be redeemed, the Trustee will select the Taxable 2010 Series B Bonds to be redeemed from the outstanding Taxable 2010 Series B Bonds of such maturity (and, if applicable, interest rate(s) within such maturity) not previously called for redemption on a *pro rata* pass-through distribution of principal basis, provided that, so long as the Taxable 2010 Series B Bonds are held in book-entry only form, the selection for redemption of such Taxable 2010 Series B Bonds shall be made in accordance with the operational arrangements of DTC then in effect, and, if the DTC operational arrangements do not allow for redemption on a *pro rata* pass-through distribution of principal basis, the Taxable 2010 Series B Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The portion of any Taxable 2010 Series B 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.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2010 Series B Bonds, it is the City's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined in APPENDIX A hereto) and such other intermediaries that may exist between the City and the Beneficial Owners (as such term is defined in APPENDIX A hereto) be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

***Sinking Fund Redemption*.** The Taxable 2010 Series B Bonds maturing October 1, 2040* 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 such Taxable 2010 Series B Bonds to be redeemed plus accrued interest, if any, to the redemption date:

2040* Maturity

Year*	Amount*	Year*	Amount*
2034	$ 3,625,000	2038	$23,470,000
2035	6,970,000	2039	29,840,000
2036	4,295,000	2040†	41,620,000
2037	22,555,000		

† final maturity

* Preliminary, subject to change.

Taking into consideration the sinking fund redemptions set forth above, the average life of the Taxable 2010 Series B Bonds maturing October 1, 2040*, calculated from the date of delivery of such Bonds, is approximately ____ years.

The particular Taxable 2010 Series B Bonds maturing October 1, 2040* or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee (by *pro rata* pass-through distribution of principal within a maturity (and, if applicable, each interest rate within such maturity) in accordance with DTC procedures, or if DTC procedures do not allow for *pro rata* pass-through distribution of principal, by lot as described further under "*Taxable 2010 Series B Bonds – Make-Whole Optional Redemption*" above). So long as a book-entry system is used for determining ownership of the Taxable 2010 Series B Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of Taxable 2010 Series B Bonds maturing October 1, 2040* to be redeemed through mandatory sinking fund installments.

In determining the amount of Taxable 2010 Series B Bonds maturing October 1, 2040* to be redeemed with any sinking fund installment, there will be deducted the principal amount of any Taxable 2010 Series B 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 2010 Series B Bonds maturing October 1, 2040* are purchased or redeemed other than with moneys in the Debt Service Account, the Taxable 2010 Series B Bonds of such maturity so purchased or redeemed will be credited against the sinking fund installments for the Taxable 2010 Series B Bonds of such maturity 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 2010 Series B Bonds of such maturity so purchased or redeemed bears to the total amount of all such sinking fund installments to be credited, subject to the authorized denominations for the Taxable 2010 Series B Bonds.

2010 Series C Bonds

***Optional Redemption*.** The 2010 Series C Bonds maturing on and after October 1, 20__ will be subject to redemption prior to maturity at the option of the City on and after October 1, 20__ as a whole or in part at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption.

If less than all of the 2010 Series C Bonds maturing on and after October 1, 20__ are to be so redeemed, the City may select the maturity or maturities (and, if applicable, each interest rate within such maturity or maturities) to be redeemed. If less than all of the 2010 Series C Bonds of any maturity (or, if applicable, any interest rate within a maturity) are to be redeemed, the particular 2010 Series C Bonds or portions of such Bonds of such maturity (and, if applicable each interest rate within such maturity) shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any 2010 Series C 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 2010 Series C Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2010 Series C Bonds of a maturity (or, if applicable, any interest rate within a maturity) are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2010 Series C Bonds of such maturity (or, if applicable, such interest rate within a maturity) to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to

* Preliminary, subject to change.

notify a Beneficial Owner of a 2010 Series C Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2010 Series C 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 2010 Series C Bonds, or that they will do so on a timely basis.

***Sinking Fund Redemption*.** The 2010 Series C Bonds maturing October 1, 2034* will be subject to redemption through mandatory sinking fund installments on October 1 in the years and in the amounts shown below, at 100% of the principal amount of such 2010 Series C Bonds to be redeemed plus accrued interest, if any, to the redemption date:

2034* Maturity

Year*	Amount*	Year*	Amount*
2030	$ 370,000	2033	$3,405,000
2031	2,145,000	2034†	3,065,000
2032	2,170,000		

† final maturity

Taking into consideration the sinking fund redemptions set forth above, the average life of the 2010 Series C Bonds maturing October 1, 2034* calculated from the date of delivery of such Bonds, is approximately _____ years.

The particular 2010 Series C Bonds maturing October 1, 2034* or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described above under "*2010 Series C Bonds — Optional Redemption*." So long as a book-entry system is used for determining ownership of the 2010 Series C Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2010 Series C Bonds maturing October 1, 2034* to be redeemed through mandatory sinking fund installments.

In determining the amount of 2010 Series C Bonds maturing October 1, 2034* to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2010 Series C 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, if there is any redemption or purchase of any 2010 Series C Bonds maturing October 1, 2034* with amounts other than moneys on deposit in the Debt Service Account, such 2010 Series C Bonds may be credited against any future sinking fund installment established for the 2010 Series C Bonds of the same maturity, as specified by the City at any time.

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the 2010 Series A, B and C Bonds not less than thirty days nor more than sixty days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2010 Series A, B or C 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 2010 Series A, B or C Bond will not affect the validity of the proceedings for the redemption of any other 2010 Series A, B or C Bond. Notice having been given in the manner provided in the Resolution, on the redemption date so

* Preliminary, subject to change.

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 2010 Series A, B or C Bonds 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 2010 Series A, B and C Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2010 Series A, B or C Bonds of a maturity (and, if applicable, an interest rate within a maturity) are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2010 Series A, B or C Bonds, as applicable, of such maturity (and, if applicable, such interest rate within a 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 2010 Series A, B or C Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2010 Series A, B or C Bonds, as applicable. 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 2010 Series A, B and C Bonds, or that they will do so on a timely basis.

Registration and Transfer; Payment

The 2010 Series A, B and C 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 2010 Series A, B and C 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 fifteen nor less than ten 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 2010 Series A, B and C 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 2010 Series A, B and C Bonds no longer shall be subject to the book-entry only system of registration and transfer described in APPENDIX A hereto, interest on the 2010 Series A, B and C 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 2010 Series A, B and C Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2010 Series A, B and C 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 2010 Series A, B and C 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 2010 Series A, B and C Bonds is the responsibility of the Direct Participants or the Indirect Participants. See "BOOK-ENTRY ONLY SYSTEM" in APPENDIX A hereto.

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 2009 population of 256,232 in the County. As of April 2009, an estimated 125,904 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 oldest university and, with more than 50,000 students, is one of the largest universities in the nation.

For additional information with respect to the City and the County, see APPENDIX C 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:

	Term Expires
Mayor Craig Lowe, At-Large	May 2013
Commissioner Jeanna Mastrodicasa, At-Large, Mayor Pro-Tem	May 2012
Commissioner Scherwin L. Henry, District 1	May 2012
Commissioner Warren F. Nielsen, District 3*	May 2011
Commissioner William Thomas Hawkins, At-Large	May 2011
Commissioner Randy M. Wells, District 4	May 2013
Commissioner Lauren Poe, District 2	May 2011

* In accordance with the Charter, Warren F. Nielsen was appointed by the City Commission to fill a vacancy on the City Commission, effective November 15, 2010.

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") and the City of High Springs, Florida ("High Springs"). 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 93,129 customers in the fiscal year ended September 30, 2009 and having a maximum net summer generating capacity of 608 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 33,451 customers in the fiscal year ended September 30, 2009.

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 69,496 and 62,071 customers, respectively, in the fiscal year ended September 30, 2009. 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

Mr. Robert E. Hunzinger, General Manager for Utilities, was appointed General Manager for Utilities in March 2008. With more than 28 years of experience, Mr. Hunzinger has worked in all three sectors of the utility industry, including investor-owned, cooperative and municipal. Mr. Hunzinger oversees all operations of the combined electric, natural gas, water, wastewater and telecommunications utilities. Principal responsibilities include management for all planning, administration, customer service, engineering, organizational development, construction and operations for all utility responsibility areas in accordance with City policies. Additionally, he oversees the preparation and administration of the annual budget and is responsible for policy development and the implementation of policies adopted by the City Commission. He reports directly to the seven-member City Commission as a Charter Officer. Mr. Hunzinger currently serves on the Board of Directors for The Energy Authority, Inc. ("TEA"), Colectric Partners, Inc. ("Colectric"), the Florida Municipal Power Agency ("FMPA"), the Florida Reliability Coordinating Council ("FRCC") and the Florida Electric Power Coordinating Group.

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:

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.

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 TEA.

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.

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, 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, and is the current President of the Board of Directors of the Florida Municipal Electric Association ("FMEA"). Additionally, Mr. Regan is a board member of the Solar Electric Power Association.

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.

Mr. John W. Stanton, Assistant General Manager – Energy Supply, was appointed in April 2008 after retiring from FPL Group as Vice President-Operation for FPL Energy (now Next Era Energy Resources) in 2002 and a successful consulting career thereafter. Mr. Stanton is responsible for planning, directing, coordinating and administering all activities and personnel for the System's Energy Supply Department including the System's power generation functions, a power engineering group, and a fuels management group, including the design, construction, operation and maintenance of related systems, projects, and contracts. Mr. Stanton also assists with risk management oversight on an executive team and acts as the System's Energy Supply Department's liaison with local, state, and federal agencies.

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 872 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 610 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, 2012. Management of the System ("Management") believes that the City's labor relations with respect to the System are excellent.

Permits, Licenses and Approvals

Management believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management 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 Alachua. See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 74% 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 (the "FPSC").

Customers

Gainesville's economy is dominated by governmental, educational, and medical services supporting an eleven county area of north central Florida. The System has experienced relatively slow growth in customers. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2005 through 2009.

	Fiscal Years ended September 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Retail Customers (Average):					
Residential	77,918	79,125	80,237	82,399	82,668
Commercial and Industrial	9,342	9,538	9,675	10,450	10,461
Total	87,260	88,663	89,912	92,849	93,129

Of the 93,129 customers in the fiscal year ended September 30, 2009, 10,461 commercial and industrial customers provided approximately 49% of revenues from retail energy sales.

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, Cowlitz County Public Utility District, 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 resources managed by TEA (including the total capacity owned by TEA equity members and resource management partners) is 28,000 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 real-time, day-ahead, and longer-term power markets up to twelve months ahead. Later this year, a system mandated by the FPSC called the Florida Cost Based Broker System ("FCBBS") will become operational, potentially creating a much more liquid and transparent market for hour-ahead sales than is currently in existence in Florida. TEA also purchases all of 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, 2009, see Note 15 to the financial statements of the System set forth in APPENDIX B 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, 2009, the System sold 1,971,488 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 5.6% per year from the fiscal year ended September 30, 2005 through the fiscal year ended September 30, 2009. 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 kilowatt hours ("kWh"), by customer class, for the fiscal years ended September 30, 2005 through 2009. For the fiscal year ended September 30, 2009, there was a 2.8% decrease in residential MWh sales from the fiscal year ended September 30, 2008. This decrease was the result of pricing and economic conditions, and customer participation in System-sponsored conservation programs.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Energy Sales–MWh:					
Residential	875,304	901,437	877,650	829,394	806,832
General Service, Large Power and Other	956,987	981,330	981,820	992,684	964,178
Firm Wholesale	161,264	174,948	181,552	193,341	200,778
Total	1,993,555	2,057,715	2,041,022	2,015,419	1,971,488
Average Annual Use per Customer–kWh:					
Residential	11,234	11,393	10,938	10,066	9,756
General Service, Large Power and Other	102,439	102,884	101,481	94,994	92,174

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 December 2012. The System sold 80,419 MWh to Seminole in the fiscal year ended September 30, 2009 and collected $6,386,353 in revenues from those sales, which represented approximately 4.1% of total energy sales (excluding interchange sales) and 2.6% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which was renewed January 1, 2009 for a term of 24 months. The contract includes management of Alachua's 655 kilowatt ("kW") or 0.0779% share of CR-3 and its 263 kW or 0.032% share of the St. Lucie No. 1 and No. 2 nuclear units. During the fiscal year ended September 30, 2009, the System sold 120,359 MWh to Alachua and received $9,965,865 in revenues from those sales, which represented approximately 6.1% of total energy sales (excluding interchange sales) and 2.4% of total sales revenues.

Interchange and Economy Wholesale Sales

Historically, the System has realized significant net revenues from non-firm and/or short-term power sales (up to twelve months in duration) through TEA, largely as a result of the System's low cost coal-fired baseload capacity, which is a substantially greater percentage than average in the Florida market. This factor will be further bolstered by the acquisition of firm baseload energy resources at the South Energy Center referred to below, from PEF, and from the Baseline Landfill referred to below. The downturn in the System's forecast of load and energy has left the System long in these resources. Currently, the downturn in natural gas

prices and loads in Florida have limited the System's ability to realize more than modest net revenues from the interchange and wholesale markets. 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)

	2005	2006	2007	2008	2009
Net Revenues.....	$515	$780	$1,698	$1,890	$1,064
Percent of Total Electric System Net Revenues.....	1.1%	1.69%	1.5%	2.8%	1.4%

(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. Purchases of less than twelve-months' duration are made through TEA, whereas longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel adjustment portion of their rates. In the fiscal year ended September 30, 2009, 21.9% 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. Early in 2009, an independent third-party, KEMA, was retained by the System to verify the energy and demand savings achieved by selected programs during the period January 2006 through December 2008. The results of the study showed that the estimated savings have been achieved to date. KEMA currently is evaluating additional programs.

DSM programs available to the System's residential customers include: energy audits; and promotion of high efficiency central air conditioning, high efficiency room air conditioning, central air conditioner maintenance, solar water heating, natural gas in new construction, the Energy Star building practices of the United States Environmental Protection Agency (the "EPA"), variable speed pool pumps, duct repair, photovoltaic ("PV") power production, energy efficiency for low-income households, proper insulation, removing second refrigerators from homes, compact fluorescent light bulbs, home energy reports, energy efficiency low-interest loans, and natural gas for displacement of electric water heating and space heating in existing structures. DSM programs available to the System's non-residential customers include: energy audits; and promotion of PV power production via a feed-in tariff, vending machine motion sensors, solar water heating, natural gas for water heating and space heating, and 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.

In April 2006, the City Commission provided direction to the System's staff to maximize DSM opportunities. Funding for conservation was increased in 2007, 2008, and 2009. DSM program implementations are estimated to have provided 31.8 MW of summer peak reduction cumulative since 1980 and 165,775 MWh in annual energy savings through the year 2009. The System plans to continue and expand its DSM programs as a way to cost-effectively meet customers' needs and hedge against potential future carbon tax and trade programs.

Green Power

In October 1993, the System became the first electric utility in Florida to provide customers with the opportunity to voluntarily support renewable energy through contributions made on their electric bills. The "green power" opportunity evolved into what most recently was marketed and sold as "GRUGreen™." "Green power" has been sourced through a portfolio of resources including: relatively small solar PV demonstration projects, a "landfill gas to energy" generating station (2.3 MW installed capacity); and "green tags" purchased from wind energy generation facilities in the Midwest.

Since 2006, renewable energy and carbon management strategies have become a major component of the System's long-term power supply acquisition program. These renewable resources include additional landfill gas to energy capacity, solar rebates and net metering. The System also has the nation's first European-style solar feed-in-tariff (discussed below) to be offered by a utility, and has entered into a long-term power purchase agreement ("PPA") for the purchase of 100 MW (net firm) of biomass-fueled power generation. The costs of acquiring these resources are either included in the System's base rates or its fuel adjustment clause, resulting in recovery from all customers. The energy that has been obtained through the System's renewable energy and carbon management strategies has eclipsed the equivalent amount of energy being obtained to support "GRUGreen™." Consequently, the "green power" customer contribution program has been retired.

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 for more information on the System's renewable energy resources.

Energy Supply System

Generating Stations

The System owns and operates generating facilities that have a net summer system capability of 608 MW. Combined with the firm 100 MW of capacity from the PEF PPAs described under "Long-Term Wholesale Power Contracts" below, the System had a planning reserve margin of 51% for the summer of 2010. The System's three generating stations are the John R. Kelly Station ("JRK Station"), the Deerhaven Station, and the South Energy Center plant site (each described herein). The System also owns a small share of CR-3, a nuclear generating unit operated by PEF, and has 100% of the output under contract from a 3 MW "landfill gas to energy" power plant at the Baseline Landfill in Marion County, Florida. These facilities are connected to the Florida grid and to the System's service area over 138 kilovolt ("kV") and 230 kV transmission facilities that include three interconnections with PEF and one interconnection with FPL.

See also "Energy Sales – *Interchange and Economy Wholesale Purchases*" above for a discussion of certain power purchases employed to allow the System to assure competitive power costs.

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

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
Plant Name	**Unit No.**	**Primary**	**Alternative**	
J.R. Kelly Station				
	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	14.00
				177.20
Deerhaven Station				
	Steam Unit 2	Bituminous Coal	—	222.10
	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	17.50
				415.10
Crystal River				
	Nuclear Steam Unit 3	Uranium	—	11.80
South Energy Center				
	SEC-1	Natural Gas	—	4.10
System Total				608.20

John R. Kelly – The 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 JRK Station Unit 8 with a heat recovery steam generator utilizing waste heat from a new GE 7EA combustion turbine. All of the JRK Station units are equipped for either oil or gas firing.

Deerhaven – The Deerhaven Station is located approximately six miles northwest of Gainesville and encompasses approximately 3,474 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 stormwater 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 Station site. The Deerhaven Station consists of two steam turbines and three combustion turbines with a net summer capability of 415 MW. Deerhaven Station Unit 1 ("Deerhaven 1") is a steam unit equipped for oil/gas firing with a net summer capability of 83 MW. Deerhaven Station 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 222 MW. There are also three quick-start combustion turbines on the Deerhaven Station site. Two combustion turbines are rated at 18 MW each, with the third combustion turbine rated with a net summer capability of 75 MW and equipped with dry low nitrogen oxide ("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. Deerhaven 2 utilizes medium-sulfur coal in combination with electrostatic precipitators, dry scrubbers (for sulfur dioxide ("SO_2") reduction and the co-benefit of reduced mercury), a selective catalytic reduction ("SCR") system (for NO_x reduction), and fabric filters (to reduce particulate matter) 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 (averaging 70% for the five fiscal years ended September 30, 2009). For the five fiscal years ended September 30, 2009, Deerhaven 2 maintained an average operating availability of 83.43%, reflecting outages associated with the air quality control system additions. The average operating availability for the fiscal year ended September 30, 2009 was 83.86%. Operating availability represents the percentage of time the unit was available to serve load at any output level.

Deerhaven 2 was retrofitted in May 2009 with additional emission control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR"), the cost of which is included in the System's capital improvement program. To control SO_2, mercury, and particulate matter, Deerhaven 2 received an SCR system that went on-line May 1, 2009, a dry scrubber system, and a fabric filter system. Performance testing during 2010 demonstrated the ability of these facilities to meet their emission removal requirements. The auxiliary electric loads associated with these facilities resulted in a loss of 6.3 MW summer net rating. A turbine upgrade in fiscal year 2012 will regain this loss. Significant investments were made in Deerhaven 2 during the emission systems installation to assure the continued reliable operation of the unit. Such investments included the replacement of ten miles of primary superheater boiler tubes, an overhaul and upgrade of four of the ten cooling towers, replacement of the control room consoles with digital displays, and an overhaul of the generator. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the federal Clean Air Act, as amended (the "Clean Air Act"), its impact on the Deerhaven Station, and certain judicial actions affecting CAIR and CAMR.

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, Florida, approximately 55 miles southwest of Gainesville. The System owns a 1.4079% ownership share of CR-3 equal to 12.102 kW (11.846 kW delivered to the System). This capacity is slightly different (150 KW) than previously reported as a result of capacity increases due to improvements performed by PEF. 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. For the past three fiscal years ended September 30, 2009, CR-3 has maintained an average capacity factor of 91.47%. In the fiscal year ended September 30, 2009, CR-3 was taken out of service for refueling and replacement of the steam generator turbine, which required cutting through the reactor containment vessel. Correction of structural anomalies has delayed the completion of this project until late fall of 2010. 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. The capacity factor guarantee from PEF has been activated during the current extended outage and GRU has received replacement power from PEF at no cost, as PEF holds a service interruption insurance policy that covers such costs. 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 twenty years. The various upgrades, renewals and replacements associated with this re-licensing are expected to result in additional capacity, which will be quantified following re-licensing. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Waste Disposal Regulation" and "INSURANCE" herein for a discussion of certain other matters relating to CR-3.

South Energy Center – The System is operating the recently constructed combined heat and power facility dedicated to serve a new cancer hospital constructed by Shands Teaching Hospital and Clinics Inc. ("Shands") at the University of Florida (the "South Energy Center"). The facility provides a net baseload generation capacity of 4 MW while providing waste heat to produce steam and chilled water for the hospital. The hospital commenced commercial operations in November 2009. The South Energy Center is owned and operated by the System, and provides steam, chilled water, medical gas, and emergency and standby power services under a 50-year "cost plus" contract with Shands. The medical campus will include 3,000,000 square feet of facilities at build out.

Baseline Landfill **–** 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. Construction of the facility was completed and the facility was placed in service in December 2008. The landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over PEF's transmission system.

Long-Term Wholesale Power Contracts **–** As a hedge against volatile natural gas prices and to add economic baseload capacity, two longer-term PPAs with PEF have been entered into by the System. Both of these agreements are for around the clock firm energy priced at the average of all PEF's baseload unit production costs, including PEF's nuclear, coal, combined cycle, and co-generation units. Capacity will be provided on a native load firm basis and the System will hold title to the power and may remarket such power if so desired. The term of the first PPA began on April 1, 2008 and extends through December 31, 2013, and such PPA provides for the purchase by the System of 50 MW. The term of the second PPA began on January 1, 2009 and extends through December 31, 2010, and such PPA provides for the purchase by the System of an additional 25 MW for all seasons except summer, during which it provides for the purchase by the System of an additional 50 MW.

Fuel Supply

The objectives of the System's 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 suppliers, (3) optimization of the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reduction in 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, 2009, the System's fuel mix was as follows: coal 70.7%; natural gas 23.1%; nuclear 5.9%; and oil 0.3%, 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 fleet of 106 aluminum rapid-discharge rail cars that are in continuous operation between the Deerhaven Station and the coal supply regions. Coal inventory at the Deerhaven Station is maintained at approximately 40-50 day 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, insulate customers from short-term price swings, and exert better control over the quality of coal delivered to the Deerhaven Station. 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 coal production capacity. The System's baseload coal supply agreements with Patriot Coal Sales LLC ("Patriot") and Premier Elkhorn Coal Company ("Premier Elkhorn") are effective through December 2011 for a coal volume of 542,000 tons annually or approximately 90% of the System's coal supply requirements for 2010 and 2011. This supply position is consistent with the System's market strategy of maintaining at least 70 - 75% of its coal supply under long-term (two to three years) contracts and the remainder under short-term (one year or less) contracts. This position has allowed the System to take advantage of favorable short-term market moves and insure against long-term economic disadvantage. 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 System's coal supply strategy has been modified with the addition of the dry scrubber and SCR system at Deerhaven 2. One of the benefits of the Air Quality Control System ("AQCS") equipment is increased fuel flexibility. The dry scrubber allows the System to switch from compliance coal (1.2 pounds of SO_2 per million British thermal units ("MMBtu's")) to a lower quality, lower cost coal having an SO_2 content

of 2.0 – 2.5 pounds per MMBtu with lower emission rates. This reduction in sulfur content allows the System to utilize coals from more suppliers and producing regions than in the past. Although the System estimates that it will require minimal amounts of compliance coal as backup inventory, the System also may elect to acquire compliance coal during periods when it is economically feasible to do so.

The System currently is exploring options and costs of extending its coal supply contracts. The System plans to purchase and test new coals as part of its Five Year Strategic Fuel Supply Plan.

Natural Gas – Natural gas supply 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. The 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 which has combined purchasing power to ensure capacity. For the fiscal year ended September 30, 2009, the System consumed 4,512,583 MMBtu's of natural gas in electric generation and 2,174,907 MMBtu's for the distribution system. The average cost of gas delivered to the System in the fiscal year ended September 30, 2009 was $6.57/MMBtu. For the current fiscal year, the System's projected average cost of gas delivered is $6.60/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge its natural gas requirements as well as provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential liquefied natural gas 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 a market participant that provides comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee ("ROC"). 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. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above. During 2010, FGT filed a rate case with the FERC to raise substantially transportation costs on the pipeline. By jointly working with other Florida utilities to combat the case, the System has been able to settle the case at savings of approximately $278,000 for the fiscal year ended September 30, 2010 and approximately $1.4 million for the fiscal year ending September 30, 2011, in each such case, as compared to the rate sought by FGT.

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 No. 2 (diesel) fuel oil. The switching between the two fuels is driven by delivered price and unit efficiency on each fuel. The System also seeks to reduce costs by periodically using refined industrial waste oil. 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. For the fiscal year ended September 30, 2009, the System's average cost was $6.14/MMBtu for No. 6 fuel oil and $19.54/MMBtu for No. 2 fuel oil.

Nuclear – PEF, as operator of CR-3, is contractually responsible 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 it can be transported and disposed of at disposal sites that are scheduled to 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. The System owns a 1.40790% share of CR-3.

Transmission System, Interconnections and Interchange Agreements

The System has a looped transmission system with ample interconnection capacity to import sufficient power to serve its territory under the extreme worst case planning scenario. This scenario assumes 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 has been added at Parker Road Switch Station and McMichen Substation to improve the System's import capacity. The System's transmission system circles the GRU service area and connects three switching stations, seven loop-fed substations, and four radial-fed substations with a 138 kV loop system that provides a high degree of reliability to serve retail loads as well as Alachua and portions of Clay's territory. A fifth radial-fed, but switchable, substation is scheduled for late 2010. 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 PEF's Idylwild Substation over a 138 kV transmission line and a 69 kV transmission line. 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 purchased or sold anywhere in Florida by transporting ("wheeling") power through either PEF or FPL. The System is a member of FRCC. FRCC is a region of the North American Electric Reliability Council, Inc. ("NERC") and consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing standby and spinning reserves for reliability purposes with 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 six loop-fed substations and three 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 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 is also used extensively in routing loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from hurricane damage. Approximately 58% of the distribution system's circuit miles are underground, which is among the highest percentages in Florida. There is a new substation planned at Springhill with construction scheduled for completion in November 2010. An additional substation is planned near US 441 and NW 53rd Ave. for 2015 to improve reliability and flexibility in serving the growing load in the System's territory.

There is no known electric apparatus containing substantial polychlorinated biphenyls ("PCB's"), a hazardous substance, in the System's transmission and distribution system. In fact, all known equipment has less than 50 parts per million ("ppm") of PCB's.

Capital Improvement Program

The System's current six-year electric capital improvement program requires a total of approximately $287,000,000 in capital expenditures between the fiscal years ending September 30, 2010 through 2015, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Electric Capital Improvement Program

	Fiscal Years ending September 30,						
	2010	2011	2012	2013	2014	2015	Total
	(dollars in thousands)						
Generation and Control	$24,545	$29,625	$27,966	$21,658	$16,097	$17,136	$137,027
Transmission and Distribution	11,938	11,608	12,076	13,087	13,702	13,687	76,098
Miscellaneous and Contingency	13,296	31,808	9,758	5,360	6,053	7,600	73,875
Total	$49,779	$73,041	$49,800	$40,105	$35,852	$38,423	$287,000

Loads and Resources

A summary of the System's generating resources and firm power purchase agreements compared to historical and projected capacity requirements is provided below:

Fiscal Year	Net Summer System Capability (MW)[1]	Firm Interchange Sales (MW)	Peak Load (MW)[2]	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2006	611	3	464	144	31
2007	611	0	481	130	27
2008	659	0	457	202	44
2009	709	0	465	244	52
2010	712	0	470	242	51
Projected					
2011	665	0	454	211	47
2012	676	0	456	220	48
2013	677	0	459	218	47
2014	657	0	462	194	42
2015	658	0	465	193	41

(1) Based upon summer ratings. Deerhaven Station CT-3 (75 MW) was placed in service in January 1996. In 2001, JRK Station Unit 8 was re-powered with JRK Station 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 reduced capacity by 3 MW in 2009. 3 MW of capacity from the Baseline Landfill was added in 2008, and 4.1 MW from the South Energy Center South was added in 2009. Three 0.64 MW landfill gas to energy units were retired in 2009, a purchase of 50 MW of firm baseload capacity ending December 31, 2013 began in 2008 and another purchase of 25 MW year round, 50 MW summer of firm baseload capacity began in 2009 and will end December 31, 2010. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009 with a coincident capacity factor of 35%, increments from CR-3 of 0.4 MW in 2010 and 1.9 MW in 2012, and 3.8 MW from the Baseline Landfill. The biomass plant is not assumed to be operational at the time of System peak in 2013.

(2) Summer peak forecast incorporates GRU's aggressive conservation and DSM plan, which is projected to result in additional peak load reductions (in addition to the reductions achieved through 2010) of 6 MW by 2012, 13 MW by 2015 and 25 MW by 2020. The plan includes conservation incentive retail rates and distributed renewable resources as well as incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua and Seminole all-requirements wholesale contracts which are given the same precedence as native load.

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 2023 to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional DSM measures, the institution of the solar feed-in-tariff, the addition of the South Energy Center and the Baseline Landfill purchase, PEF's assessment of the capacity gains from the CR-3 modifications into the System's Integrated Resource Plan ("IRP"), and more conservative customer growth and sales forecasts. 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 that is enhanced with an advantageous PPA portfolio and meets 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, measurement and verification of the effects of DSM programs, 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 is to meet the Kyoto Protocol to the United Nations' Framework Convention on Climate Change (the "Kyoto Protocol") 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 plan which includes energy efficiency and customer DSM (including incentives for solar thermal and natural gas appliance switching), the solar feed-in-tariff, and a long-term contract for the output of a 100 MW biomass power plant will allow the System to meet its Kyoto Protocol objective by 2014 and will furthermore be sufficient to allow the System meet any of the Renewable Portfolio Standards or Clean Portfolio Standards ("RPS") that have been proposed to date at the state or federal level.

Renewable Energy Strategy

Climate change and greenhouse gas ("GHG") management is a growing local, state and federal concern. The potential enactment of renewable portfolio standards and carbon constraint regulations continue to be debated at the state and national levels and may be imminent. In anticipation of these regulatory challenges and in response to community interest, carbon management has become a major consideration in energy supply planning. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Climate Change" herein. 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. The Kyoto Protocol is one such target.

The System conducted a carbon inventory in 2006 to establish a baseline rate of carbon emissions and to establish carbon targets in accordance with the Kyoto Protocol. Doing so may mitigate risks associated with renewable portfolio standards, fuel price volatility, and carbon constraints. Kyoto Protocol targets call for a 7% reduction in total carbon emissions or equivalent carbon offsets by the United States by 2012. The System conducted the inventory pursuant to the preliminary guidelines for the registration of carbon offsets (referred to as the "1605b regulations") promulgated by the United States Department of Energy (the "DOE"), and has registered these values with the DOE as a hedge against future carbon regulations once final registration regulations are established. Significant carbon offset credits have been created by the System's purchase of forest management rights for well field protection, re-powering of JRK Station Unit 7 into a combined cycle unit in 2001, replacing electric water heating with natural gas and other conservation programs, the new South Energy Center, landfill gas to energy projects, and the purchase of environmental attributes from PV 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. In March 2007, the City Commission reviewed the results of numerous planning studies and public workshops and the results of a series of market solicitations for additional resources. With the production tax credits for renewable energy, 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 was no longer the case for renewable energy. It was also apparent that biomass, which is relatively abundant in the area, has the potential to provide an economic source of power. In view of the community's concerns about climate change, indications of the intent of the state and federal governments to impose renewable portfolio standards and carbon constraints, and the volatility of natural gas prices, the System's 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. With the actions taken to date and the completion of the biomass project described below, the System will be able to meet the Kyoto Protocol's target GHG emission rate by 2014.

Biomass Resources

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 other renewable energy resources feasible with current technology. The availability of clean, woody, waste material to support the production of electricity at the Deerhaven Station power plant site has been documented by studies either under contract to the System or under contract to various state agencies. These studies were performed by: The Institute of Food and Agricultural Sciences at the University of Florida; The Florida Department of Agriculture and Consumer Services, Division of Forestry and Environmental Resources; the University of Florida School of Forest Resources; the University of Florida Food and Resource Economics Department; and Bioresource Management. Inc. on behalf of the winning applicant to construct the biomass generating facility described below. At a May 3, 2010 hearing before the FPSC related to that agency's determination of need for the project, testimony was presented that there is more than enough suitable material to support a 100 MW biomass power plant at an economic price level for the life of the facility without adversely affecting existing users of this material (for example, in boilers at paper plants). There was further testimony presented that the available fuel supply for the project is 5.8 times the project's requirements.

Gainesville Renewable Energy Center, LLC

A two-step request for proposal process was employed to initially short list applicants and then make a final selection based on binding proposals. A proposal from American Renewables Inc. was selected in 2008 and, after extensive negotiations, a PPA was executed and ratified by the City Commission in May 2009. American Renewables Inc. will develop the chosen biomass project as the Gainesville Renewable Energy Center, LLC ("GREC") on property leased from the System at the Deerhaven Station power plant site. GREC will own, operate, and maintain the facility, with the System dispatching the unit and taking 100% of the

facility's output. GREC will be a 100 MW (net) bubbling fluidized bed boiler with a steam turbine unit equipped with air emission controls including dry sorbent injection, selective catalytic reduction of NO_x and fabric filters for particulate control. The type of fuel to be employed makes it unnecessary to control SO_2 or mercury. The intended fuel supply is primarily forest residuals left in the field after normal timber harvesting as well as materials from urban forestry and suitable sources of clean wood, and biomass such as pallets, and mill residues.

The System's PPA extends for thirty years from the date of first commercial operation and is structured as a "must-take" contract but with no fixed capacity charges. The PPA provides a contractual (guaranteed) heat rate as well as a guarantee of no more than 5.0% unavailability for four summer months and 10% annual average unavailability. In addition to the System having no financial obligation except for available energy, the contract provides liquidated damages for performance below these levels of reliability, a right of first offer to purchase the facility, and a unilateral option to purchase the facility at fair market value at the end of the contract. The pricing elements for energy under the PPA include three components: (a) a non-fuel energy charge; (b) a variable operating and maintenance charge; and (c) the fuel cost. The non-fuel energy charge is set in the PPA and will remain fixed over the term of the contract, and includes all costs to GREC of plant financing, construction, operation, equipment renewal and replacement, and maintenance over the life of the PPA. This charge is paid either for energy delivered or available energy that the System did not schedule. It should be noted that the dispatch order of merit for GREC is before the System's existing coal unit. The variable operating and maintenance charge is set in the PPA and will escalate according to a consumer price index. It is expected that GREC will enter into a portfolio of contracts with must take and call options indexed to diesel fuel and labor costs. The PPA includes a gain sharing formula which provides financial incentives for GREC to obtain the lowest priced fuel possible and the System has the option of providing a portion of the fuel. On September 27, 2010, GREC announced that a long-term contract had been signed to provide one-third of the required fuel supply for the next ten years, derived strictly from clean urban wood waste. All legislation and RPS standards either proposed to date or in effect worldwide treat biomass energy as carbon neutral, and the GREC PPA gives the System title to 100% of the environmental attributes associated with the facility, including renewable energy credits and carbon offset credits. The EPA's proposed CO_2 "Tailoring Rule" explicitly states that the agency's stance on biomass carbon neutrality has yet to be determined. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions – *The Clean Air Transport Rule*" for a discussion of the EPA's Tailoring Rule.

GREC is expected to create over 700 jobs in the region and because most of the energy costs are fixed, the cost of power and firm capacity will have substantial economic benefits for the System over the long-term. In the short-term, the System plans to resell about half of the GREC's capacity for a period of about ten years, and has actively engaged with a number of interested Florida utilities for this resale.

Three regulatory milestones must be passed before construction of GREC may commence: GREC must receive (1) a determination of need by the FPSC (a "Need Determination"), (2) a certification that the site meets land use, transportation, natural resource, and environmental criteria approved by Florida's governor and cabinet (a "Site Certification"), and (3) a Prevention of Significant Deterioration air construction permit (a "PSD permit") by the Florida Department of Environmental Protection (the "FDEP"). An order granting GREC the Need Determination was issued to the co-applicants (the System and GREC, LLC) on June 28, 2010 by the FDEP. Interveners have appealed the Need Determination to the Florida Supreme Court. The FDEP also issued its recommendations of approval for a Site Certification and PSD permit subject to certain conditions that are acceptable to the applicant (GREC). Public hearings requested by interveners on the Site Certification and PSD permit recommendations were completed on August 26, 2010 and September 23, 2010, respectively. The hearing officer's recommended order in favor of the Site Certification was issued November 1, 2010. The recommended order regarding the PSD permit is expected to be issued in early November 2010, and is expected to be favorable to the project. Under Florida law, interveners may appeal these orders to the jurisdictional appellate court.

Solar Feed-In-Tariff

The System became the first utility in the nation to adopt a European-style solar feed-in-tariff ("FIT") in March 2009. Under this tariff, the System agrees to buy 100% of the electricity produced by a PV solar system, which is delivered directly to the System's distribution system. What distinguishes a European-style FIT from any other FIT are the following three factors: (a) the price paid per kWh is designed to allow the owner/operator to earn a profit (the System applied a 5% internal rate of return after taxes to a reference system design); (b) the tariff is fixed over a sufficient period of time by a contract that is designed to promote investment (the System's Tariff provides a twenty-year fixed price purchase power agreement); and (c) the tariff differentiates between different types of projects in terms of the price paid (in the case of the System, there are different tariff rates for building/pavement mount and green field ground mount systems). FIT's can be applied to any form of renewable energy, but the System has chosen to focus on solar due to its widespread availability in the service area. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The benefits of the FIT include the creation of local investment opportunities, new jobs, and the potential attraction of solar manufacturing to the region. In order to manage the effect of the FIT on the System's purchased power cost, a stop loss criteria of no more than 4 MW per year of solar capacity was instituted. As of November 1, 2010, over 5.5 MW of solar PV capacity has been installed pursuant to the System's FIT, rebate, and net metering programs.

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 system consists primarily of underground gas distribution and service lines, six 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. The natural gas system covers approximately 115 square miles and provides service to 29% of the County's population. 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 and Alachua currently 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 a 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.

Customers

The natural gas system has experienced slow growth in customers in recent years of 1.4%, compounded annually. The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2005 through 2009. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Customers (Average).....	31,704	32,520	33,125	33,776	33,451

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 4.9% of the 33,451 average customers served in the fiscal year ended September 30, 2009.

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 provide 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, 2009 was $7.27/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 741 miles of gas distribution mains. The predominant and now standard pipe materials in service are polyethylene (533 miles) and coated steel (190 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The remaining 18 miles of the distribution system are comprised of uncoated steel, cast iron, and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and in advance of regulatory requirements.

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 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 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 has received final approval of its proposed overall "Remedial Action Plan" which will entail the excavation and landfilling of impacted soils at a specially designed facility. This plan will be implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property will be redeveloped by the City as a park that will have stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design.

The remediation costs were estimated at $22.3 million as of October 1, 2010, of which $4.2 million has been obtained from the State's petroleum clean-up fund. The remaining cost is 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 $56,405,000 in capital expenditures between the fiscal years ending September 30, 2010

through 2015, 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.

Gas Capital Improvement Program

	Fiscal Years ending September 30,						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
	(dollars in thousands)						
Distribution Mains	$ 935	$ 1,345	$1,826	$1,904	$2,447	$3,006	$ 11,472
Meters, Services and Regulators	1,917	2,015	2,752	2,932	2,837	2,514	14,967
Acquisition and Clean-up	12,018	10,313	-	-	-	-	22,331
Miscellaneous and Contingency	1,291	3,405	1,180	581	584	594	7,635
Total	$16,161	$17,087	$5,758	$5,417	$5,868	$6,114	$56,405

THE WATER SYSTEM

The water system currently includes 1,104 miles of water transmission and distribution lines throughout the Gainesville urban area, sixteen 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 at least 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 69% 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 slow 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, 2005 through 2009.

	Fiscal Years ended September 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Customers (Average)	64,692	66,475	67,774	69,779	69,496

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.9% of the 69,496 average customers in the fiscal year ended September 30, 2009, and 58% of all water sales revenues were from residential customers.

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, current water treatment and supply facilities are adequate through at least 2030. 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, filtration, 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 has been upgraded with the addition of two additional filter cells to provide additional treatment capacity.

Raw water requirements for the water system are supplied by sixteen 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 sixteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield a minimum of 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site.

The System's groundwater withdrawals are permitted through the St. Johns River Water Management District ("SJRWMD") and Suwannee River Water Management District ("SRWMD"). The SJRWMD and SRWMD are currently engaged in developing a water supply plan through 2030. The intent of the water supply planning process is to ensure adequate water supply on a long-term basis while protecting natural resources. The water supply planning is anticipated to be complete in mid-2011. Computer groundwater modeling performed to date by the water management districts indicates that there may be future constraints on groundwater supplies. The System is engaged in the development of these plans and is confident that it can meet its future water supply needs through a combination of wellfield development, increased water conservation efforts and increased use of reclaimed water.

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 the EPA and the PRP for the site (Beazer East, Inc.) to develop remediation plans. The System has assembled a team of experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with the 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.

On July 15, 2010, the EPA issued a proposed remediation plan involving a number of technologies to manage contamination at the site, including a slurry wall, in situ contaminant solidification, soil encapsulation, groundwater removal and treatment, and potentiometric gradient reversal. The proposed plan has been reviewed by local agencies and a number of recommendations were submitted jointly to the EPA by the City Commission and the Alachua County Board of County Commissioners before the October 15, 2010 deadline.

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 ("PVC") 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 $12.9 million in the fiscal year ended September 30, 2009 and is planning to spend an additional $18.2 million in the fiscal years ending September 30, 2010 through 2015, 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 $61,128,000 in capital expenditures between the fiscal years ending September 30, 2010 through 2015, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

Water Capital Improvement Program

	Fiscal Years ending September 30,						
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
	(dollars in thousands)						
Plant Improvements	$ 3,461	$ 5,303	$4,966	$4,604	$3,495	$841	$22,670
Transmission and Distribution	3,146	2,177	2,132	1,992	3,200	5,521	18,168
Miscellaneous and Contingency	3,384	10,588	2,507	1,223	1,244	1,344	20,290
Total	$9,991	$18,068	$9,605	$7,819	$7,939	$7,706	$61,128

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 608 miles of gravity sewer collection system, 166 pump stations with 136 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 that would result 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 slow growth in customers in recent years. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ended September 30, 2005 through 2009.

	Fiscal Years ended September 30,				
	2005	**2006**	**2007**	**2008**	**2009**
Customers (Average).....	57,553	59,206	60,205	61,552	62,071

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 62,071 average customers in the fiscal year ended September 30, 2009, and residential customers were the source of 67% of all the wastewater system's revenues in the fiscal year ended September 30, 2009.

The System is currently in negotiations with the City of Waldo, Florida ("Waldo") to provide Waldo with wastewater service on a wholesale basis. Waldo currently provides wastewater service to approximately 850 of its residents. However, Waldo's existing water reclamation facility cannot meet required environmental permit limits. The proposed plan is for Waldo to construct a lift station and force main which will collect Waldo's raw wastewater and discharge it to one of the System's existing lift stations. Waldo will be responsible for obtaining the required funding for the project. The proposed facilities will provide adequate capacity for Waldo to more than double its service population with future growth, which will in turn result in more revenue opportunities for the System.

Treatment

The wastewater system currently includes two major wastewater treatment plants, the Main Street Water Reclamation Facility (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 projected demands through 2029. 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 permit.

In addition, the Main Street Plant includes a reclaimed water pumping station and distribution system. The reclaimed water distribution system currently includes a pipeline, which provides reclaimed water to the South Energy Center where it is then used for process cooling and irrigation. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generation Stations – South Energy Center*" herein. This line also provides reclaimed water for pond augmentation and future irrigation at the MGP remediation site (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein). The line will also provide reclaimed water to the City's future bus wash facility and provide for other irrigation and cooling uses that develop near the pipeline corridor.

Total Maximum Daily Load ("TMDL") regulations were adopted by the FDEP in January 2006 and require reductions in total nitrogen discharges from the Main Street Plant and other nitrogen sources. Florida's TMDL regulations allow the FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. GRU is planning to achieve its TMDL limits by participating in a proposed cooperative

environmental restoration project known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the Main Street Plant effluent. This project is currently in the detailed design phase and is anticipated to be complete by 2019.

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 carrousel advanced wastewater treatment activated sludge system. The treatment process concludes with filtration and chlorination prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The System consistently meets the required primary and secondary drinking water standards for discharge to recharge wells.

The Southwest Reuse Project distributes reclaimed water from the Kanapaha Plant to commercial and residential customers for landscape irrigation and golf course irrigation. The System also has numerous "aesthetic water features," which provide a public amenity and wildlife habitat in addition to recharging the aquifer. 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 2.1 Mgd AADF of reclaimed water in the fiscal year ended September 30, 2010. 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 14,747 manholes with 610 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of PVC pipe, and new facilities 12 inches in diameter and over are primarily constructed 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 166 pump stations and over 137 miles of pipe. Existing lines under 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed 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. The System has instituted a preventative maintenance program to assure 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 $93,224,000 in capital expenditures between the fiscal years ending September 30, 2010 through 2015, 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,						
	2010	2011	2012	2013	2014	2015	Total
	(dollars in thousands)						
Plant Improvements	$ 2,084	$ 8,912	$ 4,391	$ 6,960	$ 6,164	$ 3,365	$31,876
Reclaimed Water	2,745	5,732	7,681	5,161	1,264	780	23,363
Collection System	3,062	1,641	1,781	2,335	2,403	2,268	13,490
Miscellaneous and Contingency	4,254	11,103	3,097	1,787	1,977	2,277	24,495
Total	$12,145	$27,388	$16,950	$16,243	$11,808	$8,690	$93,224

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, public safety radio services for all the major public safety agencies operating in the County and collocation services in the System's central office. 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. GRUCom holds telecommunications licenses that allow it to provide telecommunication services throughout the State.

Services Provided

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

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits (both described below) 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 1 gigabit 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 will offer 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 1 Gbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 10 Mbps. Additionally, GRUCom offers dial-up and ISDN Internet access services under the domain names GRU.Net and Gator.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 trunked radio system consists of twenty-two trunked voice frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom's transport services. Certain frequencies used by the trunked radio system were recently changed in conjunction with a mandate from the FCC which will accommodate PCS provider Nextel. All costs 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, 2009, GRUCom had a total of 93 transport customers with 1,071 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. As of September 30, 2009, GRUCom had 4,643 dedicated Internet access customers, while dial-up customers totaled 778.

GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2009, GRUCom had executed 46 tower leases, for space on fourteen antenna sites with ten different lessees, including national and regional cellular service providers.

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 public safety radio system was designed to accommodate additional participants, and the contract with each

participating agency provides incentives to allow the system to expand. Currently, the public safety radio system is in full operation with 3,800 subscriber units in service.

Description of Facilities

As of September 30, 2009, GRUCom had 341 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 standard protocol; and 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 10 Gbps which is enough bandwidth to deliver more than 125,000 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.

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

GRUCom maintains a point-of-presence at the Telx Group, Inc. ("Telx") collocation and interconnection facility located at 56 Marietta Street in Atlanta, Georgia (the "Telx Facility"). The Telx Facility provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber interconnection point from Florida to New York and the Telx Facility sits on top of most of the fiber. GRUCom maintains multiple ultra-high bandwidth backbone transmission interconnections on diverse routes between Gainesville and the Telx Facility to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Telx Internet Exchange ("TIE"), a separate peering point in the Telx Facility. The TIE allows GRUCom to quickly and easily exchange internet protocol ("IP") traffic directly with over sixty of the world's largest Internet Service Providers ("ISPs"), Content Providers, Gaming Providers and Enterprises, including companies such as Google, McAfee Akami, Hurricane Electric (a major Internet service), Sprint and several other Internet service providers. TIE participants can route IP traffic efficiently, providing faster, more reliable and lower-latency internet or voice over internet protocol (VoIP) access to their customers, by bypassing intermediate router points so that Internet traffic may have direct access to destination networks.

Capital Improvement Program

The capital improvement program for GRUCom calls for expenditures of $41,750,000 between the fiscal years ending September 30, 2010 through 2015, inclusive. GRUCom's 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,						
	2010	2011	2012	2013	2014	2015	Total
	(dollars in thousands)						
Fiber Optic Expansion	$4,572	$4,186	$4,997	$5,396	$5,556	$5,721	$30,428
General Plant	265	205	236	255	264	271	1,496
Miscellaneous and Contingency	1,684	6,817	1,072	82	85	86	9,826
Total	$6,521	$11,208	$6,305	$5,733	$5,905	$6,078	$41,750

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 that comply with the rate covenant in the Resolution. See "SECURITY FOR THE BONDS – Rate Covenant" herein. Future projected rate changes provided in this Official Statement have been developed by the System's staff based on the most recent forecasts and operation projections available.

Electric System

The table below presents electric system base rate changes since 2006 and the most recent projected rate changes.

Electric System
Base Rate Revenue Changes
(Excluding Fuel Adjustment)

Rate Changes	Percentage Base Rate Revenue[1] Increase
Historical	
October 1, 2006	13.50%
October 1, 2007	11.00
October 1, 2008	7.00
October 1, 2009	6.90
October 1, 2010	2.25
Projected[2]	
October 1, 2011	0.50
October 1, 2012	0.50
October 1, 2013	0.50
October 1, 2014	0.50
October 1, 2015	0.50

(1) Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges, kWh energy usage charges, and demand charges for the rate classes with demand metered separately from energy (General Service Demand and Large Power rate categories). Fuel revenue requirements are collected as a uniform charge on all kWh of energy used. Increases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

(2) 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 committed to the System as their exclusive provider of electric power for ten 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 to obtain these increased discounts, customers were required to execute a new Business Partners Program agreement for a ten-year term. Since October 1, 2006, no new Business Partner Contracts have been entered into. Contracts already in effect

will be honored until their respective expiration dates, which for a majority of customers will be 2012. The expiration of these contracts will tend to offset revenue requirement increases 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 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 (the "General Fund") pays for streetlights in Gainesville. Pursuant to a 1990 agreement, the 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 electric rates, which became effective October 1, 2010, 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	$8.45
First 250 kWh, Total charge per kWh.....	$0.032
251 – 750 kWh, Total charge per kWh ……..	$0.068
All kWh per month over 750, Total charge per kWh	$0.102

Residential Optional Time-of-Use Rate

Customer charge, per month	$17.60
Energy charge:	
All energy used on-peak, per kWh.....	$0.139
All energy used off-peak, per kWh	$0.035

Peak periods shall be as follows:

Weekdays, 6:00 a.m. through 10:00 p.m., weekends and holidays 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	$26.00
First 1,500 kWh per month, Total charge per kWh.....	$0.080
All kWh per month over 1,500, Total charge per kWh.....	$0.108

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	$50.00
Total Demand charge, per kW	$9.25
Total Energy charge, per kWh	$0.051

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	$300.00
Total Demand charge, per kW	$9.25
Total Energy charge, per kWh	$0.045

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.

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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 9,756 kWh in the fiscal year ended September 30, 2009.

Comparison of Monthly Electric Bills [(1)]

		General Service[(2)]		
	Residential 1,000 kWh	**Non-Demand 1,500 kWh**	**Demand 30,000 kWh 75 kW**	**Large Power[(2)] 430,000 kWh 1,000 kW**
Florida Power & Light Company	$ 92.08	$151.33	$2,435.16	$33,619.75
Tampa Electric Company	109.91	169.85	2,859.75	39,402.50
JEA	110.46	159.01	2,895.95	40,560.60
Clay Electric Cooperative, Inc	112.50	170.15	2,827.00	38,742.00
Lakeland Electric	117.14	177.16	2,970.23	41,204.93
Orlando Utilities Commission	119.82	186.29	2,905.50	40,557.20
Kissimmee Utility Authority	120.91	193.98	3,394.99	46,931.02
City of Vero Beach	121.45	188.85	3,395.75	39,754.20
Gulf Power Company	123.02	192.36	3,030.80	42,139.70
Progress Energy Florida, Inc	123.73	184.72	2,966.14	41,890.36
City of Tallahassee	129.50	168.77	3,223.85	44,594.00
Gainesville Regional Utilities	**130.45**	**205.37**	**3,478.88**	**46,397.76**
Ft. Pierce Utilities Authority	139.84	217.30	3,798.75	54,432.10
Ocala Electric Authority	139.84	207.72	3,568.79	53,891.62

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 in effect for June 2010 applied to noted billing units, 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, as discussed above.

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Natural Gas System

The table below presents the results of natural gas system base rate increases since 2006 and the most recent projected rate changes.

Natural Gas System
Base Rate Revenue Changes

Rate Changes	Percentage Base Rate Revenue[1] Increase
Historical	
October 1, 2006	None
October 1, 2007	11.00%
October 1, 2008	19.00[2]
October 1, 2009	None
October 1, 2010	2.25[3]
Projected[4]	
October 1, 2011	0.00
October 1, 2012	0.00
October 1, 2013	0.00
October 1, 2014	0.00
October 1, 2015	0.00

(1) Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges and energy usage charges (therms). Fuel revenue requirements are collected as a uniform charge on all therms of energy used. Increases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement. 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 $0.0321 to $0.037 per therm.

(3) 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 $0.037 to $0.0434 per therm.

(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.

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 became effective October 1, 2010, are provided below by class of service:

Residential Service Rate	
Customer Charge	$9.52 per month
Non-Fuel Energy Charge	$0.483 per therm
General Firm Service Rate	
Customer Charge	$35.00 per month
Non-Fuel Energy Charge	$0.343 per therm
Interruptible Service Rate	
Customer Charge	$375.00 per month
Non-Fuel Energy Charge	$0.315 per therm
Large Volume Interruptible Rate	
Customer Charge	$375.00 per month
Energy Charge	$0.1573 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	$0.0434 per therm

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. 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 natural gas charges in effect for the month of June 2010 are compared to those for eleven 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)]

	Residential 25 therms	General Firm 300 therms	Interruptible 30,000 therms
Gainesville Regional Utilities	**$35.77**	**$292.50**	**$25,479.00**
Okaloosa Gas District	36.80	340.05	25,291.80
City of Sunrise	41.45	320.79	32,919.54
Central Florida Gas	42.92	326.40	19,816.20
Pensacola	44.18	462.26	31,516.89
Clearwater	46.50	436.00	31,150.00
Kissimmee[(2)]	49.63	360.00	26,749.50
Lakeland[(2)]	49.63	360.00	26,749.50
Orlando[(2)]	49.63	360.00	26,749.50
Tampa[(2)]	49.63	360.00	26,749.50
Ft. Pierce	50.85	396.67	32,688.01
Tallahassee	51.72	466.29	39,369.23

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 in effect for June 2010 applied to noted billing volume (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 presents the water system rate changes since 2006 and the most recent projected rate changes.

Water System

Base Rate Revenue Changes

Rate Changes	Percentage Base Rate Revenue[1] Increase
Historical	
October 1, 2006	25.00%
October 1, 2007	13.00
October 1, 2008	9.00
October 1, 2009	4.50
October 1, 2010	7.00
Projected[2]	
October 1, 2011	1.00
October 1, 2012	1.00
October 1, 2013	1.00
October 1, 2014	1.00
October 1, 2015	1.00

(1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and water usage charges. Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.

(2) 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 2006 and the most recent projected rate changes.

Wastewater System

Base Rate Revenue Changes

Rate Changes[1]	Percentage Base Rate Revenue[1] Increase
Historical	
October 1, 2006	25.00%
October 1, 2007	17.00
October 1, 2008	11.00
October 1, 2009	2.25
October 1, 2010	3.50
Projected[2]	
October 1, 2011	2.00
October 1, 2012	2.00
October 1, 2013	1.75
October 1, 2014	1.75
October 1, 2015	1.75

(1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and wastewater usage charges (as a function of water usage). Increases are applied to billing elements to reflect the most recent cost of service study.

(2) 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 customers are subject to inverted block rates. Under this structure, usage of 0-9,000 gallons represents the first tier, under which customers are charged a flat billing rate. Usage greater than 9,000 gallons but less than 25,000 gallons represents the second tier, under which customers are billed at a rate 83% greater than the flat rate. All usage of 25,000 gallons and above represents the third tier, under which customers are billed at a rate 64% greater than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users.

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 transfer policy reflects a historical commitment which enticed the University of Florida to locate in Gainesville in the early nineteen hundreds. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based. In October 2006, the fire hydrant charges for the University of Florida were included in base water rates.

Fire hydrants in Gainesville and in the unincorporated areas of the County are provided by the System and billed to the appropriate jurisdiction for payment. A 1990 agreement between Gainesville and the County provided for the City to reimburse the County from its General Fund for its fire hydrant payments. The City Commission directed that, effective October 1, 2005, the cost for fire hydrants be rolled into base water rates.

Monthly Service Charges

Monthly service charges are levied for the actual units of service rendered individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly billing charge. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers have individual maximum charges, established by consumption during non-irrigating seasons, to eliminate non-returned water from their wastewater bill. Customers are subject to fees to pay the costs associated with monitoring their discharge. The table below lists the charges for water and wastewater service that became effective October 1, 2010.

Current Monthly Charges For Water and Wastewater Services

Water Rates:	
Residential	
Customer Billing Charge	$7.75 per month
Consumption Rate:	
First 9,000 gallons	$1.99 per 1,000 gallons
Over 9,000 to less than 25,000 gallons	$3.65 per 1,000 gallons
25,000 or more gallons	$6.00 per 1,000 gallons
Commercial	
Customer Billing Charge	$7.75 per month
Consumption Rate	$3.40 per 1,000 gallons
University of Florida	
Customer Billing Charge	$7.75 per month
Consumption Rate:	
On-campus facilities	$1.67 per 1,000 gallons
Off-campus facilities	$2.57 per 1,000 gallons
City of Alachua[(1)]	
Customer Billing Charge	$7.75 per month
Consumption Rate	$1.62 per 1,000 gallons
Wastewater Rates:	
Residential and Commercial	
Customer Billing Charge	$6.50 per month
All Usage[(2)]	$5.29 per 1,000 gallons

(1) The System provides wholesale water service to Alachua for resale to a residential subdivision.

(2) Wastewater rates apply to all metered water consumption up to a specified maximum. The residential maximum is established for each customer based upon its winter (December or January) maximum water consumption. The non-residential maximum is 95% of metered water use.

Comparison with Other Cities

The System's average water and wastewater charges in effect for the month of June 2010 are compared to those for thirteen other Florida cities in the table below.

Comparison of Monthly Residential Water and Wastewater Bills[(1)]

City	Water	Wastewater	Total
Orlando	$13.71	$36.58	$50.29
Orange County	14.58	37.27	51.85
Lakeland	17.62	34.55	52.17
Tampa	16.06	36.59	52.65
Winter Haven[(2)]	21.22	36.28	57.50
Pensacola (ECUA)	21.15	36.85	58.00
Ocala[(3)]	15.94	42.72	58.66
Gainesville Regional Utilities	**18.85**	**41.49**	**60.34**
Tallahassee[(2)(3)]	14.45	46.01	60.46
Jacksonville	18.81	42.87	61.68
St. Augustine	33.40	35.39	68.79
Daytona Beach	35.72	40.17	75.89
Lake City	33.25	44.54	77.79
Ft. Pierce	31.51	49.07	80.58

Source: Prepared by the Strategic Planning Department of the System based upon published rates and charges and/or personal contact with utility representatives.

(1) Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for June 2010; excludes all taxes, surcharges, and franchise fees; sorted by total charges.

(2) Similar water treatment process -- filtration and softening.

(3) Similar wastewater treatment process -- public access reuse levels.

Surcharge

Non-exempt water customers residing within the City's corporate limits are assessed a 10% utility tax. Non-exempt water customers residing outside the City's corporate limits are assessed a 25% surcharge and pay a 10% County utility tax. There is no utility tax on wastewater. However, non-exempt wastewater customers residing outside the City's corporate limits are assessed a 25% surcharge. Effective October 1, 2001, water and wastewater connection charges are subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits.

Connection Charges

The System collects connection charges, including transmission and distribution system (or collection system for wastewater) charges, meter installation charges, treatment plant connection charges and contributions in aid of construction. Transmission and distribution/collection system connection charges and meter installation charges are designed to recover a portion of the capital cost of installing the distribution and collection systems. Treatment plant connection charges are designed to recover the current cost of the treatment plants and additional facilities required to provide adequate water and wastewater service to new customers. Connection charges are adjusted periodically to reflect inflation.

Effective October 1, 2010, transmission and distribution/collection system connection charges for individual lots are $380 to connect to the water system and $560 to connect to the wastewater system. The water meter installation charge is $460 for a typical single family dwelling (requiring 5/8 inch meter). The water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are $590 for new water service and the wastewater flow-based connection charges are $2,330 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are $4,320.

SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years ended September 30, 2007 through September 30, 2009 and for the nine-month periods ended June 30, 2009 and June 30, 2010, and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ended September 30, 2007 through September 30, 2009 is derived from the audited financial statements of the City for the System. The information for the nine-month periods ended June 30, 2009 and June 30, 2010 is derived from the City's unaudited financial statements for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto for the fiscal years ended September 30, 2009 and 2008, included as APPENDIX B to this Official Statement.

	Fiscal Years Ended September 30,			Nine Months Ended June 30,	
	2007	**2008**	**2009**	**2009**	**2010**
				(unaudited)	(unaudited)
	(dollars in thousands)				
Revenues:					
Electric	$209,656	$251,859	$266,796	$198,628	$197,483
Gas	29,328	32,402	26,202	22,915	22,310
Water	23,644	27,126	28,500	20,706	21,652
Wastewater	27,380	31,797	32,467	23,681	24,563
GRUCom	7,739	9,431	9,620	7,258	11,190
Total Revenues	$297,747	$352,615	$363,585	$273,188	$277,198
Operation and Maintenance Expenses:					
Electric	$152,931	$184,641	$188,368	$139,877	$134,456
Gas	24,287	26,219	19,145	17,995	17,020
Water	10,706	12,195	12,590	9,480	9,538
Wastewater	11,134	13,047	12,675	9,447	9,504
GRUCom	4,608	4,982	4,866	3,827	4,020
Total Operation and Maintenance Expenses	$203,666	$241,084	$237,644	$180,626	$174,538
Net Revenues:					
Electric	$56,725	$67,218	$78,428	$58,751	$63,027
Gas	5,041	6,183	7,057	4,920	5,290
Water	12,938	14,931	15,910	11,226	12,114
Wastewater	16,246	18,750	19,792	14,234	15,059
GRUCom	3,131	4,449	4,754	3,431	7,170
Total Net Revenues	$94,081	$111,531	$125,941	$92,562	$102,660
Aggregate Debt Service on Bonds	$40,545	$47,127	$51,062	$38,459	$46,621
Debt Service Coverage Ratio for Bonds	2.32	2.37	2.47	2.41	2.20
Debt Service on Subordinated Indebtedness[(1)]	$5,397	$5,500	$10,328	$5,165	$5,708
Total Debt Service on Bonds and Subordinated Indebtedness	$45,942	$52,627	$61,390	$43,624	$52,329
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness	2.05	2.12	2.05	2.12	1.96

(1) Excludes principal of maturing tax-exempt and taxable commercial paper notes which were paid from newly-issued tax-exempt or taxable commercial paper notes, as applicable.

MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS

Results of Operations

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined.

For the electric system, base rates were increased by 7.0% for the fiscal year ended September 30, 2009 and 6.9% for the fiscal year ending September 30, 2010. The rate increases for the fiscal year ended September 30, 2009 and the fiscal year ending September 30, 2010 can largely be attributed to increased maintenance costs on aging equipment.

Energy sales (in MWh) to retail and wholesale customers (native load) decreased 0.3% per year from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2009. The number of electric customers increased at an average annual rate of 1.6% between the fiscal years ended September 30, 2005 and September 30, 2009. For the nine months ended June 30, 2010 as compared to the same period in 2009, energy sales (in MWh) decreased 5.2%. This decrease can be attributed to economic conditions, price increases, and conservation efforts.

Native load fuel increased by approximately $19.8 million from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. From the fiscal year ended September 30, 2008 to the fiscal year ended September 30, 2009, there was an increase of $4.5 million. Fuel adjustment revenue increased by 23.9% from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. Between the fiscal year ended September 30, 2008 and the fiscal year ended September 30, 2009, fuel adjustment revenue increased 13%. For the nine months ended June 30, 2010 as compared to the same period in 2009, fuel adjustment revenue decreased by 4.2%.

Net revenues from electric interchange sales increased by approximately $133,000 from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. These net revenues decreased slightly by $827,000 between the fiscal year ended September 30, 2008 and the fiscal year ended September 30, 2009, and electric interchange sales decreased by 9.2% during this same period. The reduction in electric interchange sales is primarily the result of economic pricing, which results in reduced sales margins. For the nine months ended June 30, 2010 as compared to the same period in 2009, electric interchange sales increased slightly by 6.6%.

Natural gas system retail sales are largely dependent on winter weather. From the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2008, natural gas sales decreased each year by an average of 3.2% per year. Sales then increased by nearly 3% from the fiscal year ended September 30, 2008 to the fiscal year ended September 30, 2009. For the nine months ended June 30, 2010 as compared to the same period in 2009, sales increased by nearly 1.4 million therms. This increase was due to a greater number of heating degree days caused by an unseasonably cold winter. The number of gas customers increased at an average annual rate of approximately 1.4% between the fiscal years ended September 30, 2005 and September 30, 2009. Natural gas costs increased by approximately $1.6 million for the fiscal year ended September 30, 2008 as compared to the prior fiscal year, but decreased by $4.6 million from the fiscal year ended September 30, 2008 to the fiscal year ended September 30, 2009. For the nine months ended June 30, 2010 as compared to the same period in 2009, natural gas costs decreased by 7.2%. Since these costs are passed along to customers as part of a purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues.

In order to recover costs associated with the remediation of soil contamination caused by the operation of an MGP, the City established a per therm charge as part of the gas system's customer rate in the fiscal year ended September 30, 2003. The estimated remaining cost to be recovered is approximately $18.1 million. See

"THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. For the fiscal year ending September 30, 2009, the rate for the per therm charge with respect to the MGP site was increased to $0.0370 from $0.0321. This rate was not increased for the fiscal year ended September 30, 2010. No gas system base rate increases were required for the fiscal year ended September 30, 2007. However, due to increasing maintenance and capital needs, the gas system rates were increased 11.0% for the fiscal year ended September 30, 2008 and 19.0% for the fiscal year ending September 30, 2009. No gas system base rate increases were required for the fiscal year ended September 30, 2010.

Water system sales are dependent on seasonal rainfall. Revenues from water sales increased by approximately $2.1 million from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. From the fiscal year ended September 30, 2008 to the fiscal year ended September 30, 2009, water sales again increased slightly by $618,000. For the nine months ended June 30, 2010 as compared to the same period in 2009, water sales decreased nearly $552,000. The number of water customers increased at an average annual rate of 1.8% between the fiscal years ended September 30, 2005 and September 30, 2009. The water revenue increases for the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2009, as well as for the six months ended March 31, 2009 as compared to the same period in 2008, were the result of rate increases and decreased rainfall levels. However, for the comparative periods ended June 30, 2009 and June 30, 2010, the decrease is largely attributable to higher than average rainfall, price sensitivity, and conservation efforts. This trend is projected to continue through the fiscal year ended September 30, 2010. In accordance with these projections, revenue decreases will require a withdrawal from the Rate Stabilization Fund of approximately $2.4 million. For the fiscal year ended September 30, 2009, the Water System required a withdrawal of $997,000 from the Rate Stabilization Fund. Water system rates were increased by 9.0% in the fiscal year ended September 30, 2009, and by 4.5% in the fiscal year ended September 30, 2010.

Wastewater system billings generally track water system sales. For the fiscal year ended September 30, 2008 as compared to the fiscal year ended September 30, 2009, the System billed 6.3% less volume of wastewater. However, revenues from this same period increased 8.7% due to rate increases. For the nine months ended June 30, 2010 as compared to the same period in 2009, wastewater billings decreased slightly by nearly 1%. The number of wastewater customers increased at an average annual rate of 1.9% between the fiscal years ended September 30, 2005 and September 30, 2009. As with the water system, rate increases for the fiscal year ended September 30, 2008 provided significantly higher revenues, allowing for a Rate Stabilization Fund contribution of $1.2 million for the fiscal year ended September 30, 2008. For the fiscal year ended September 30, 2009, the Wastewater System contributed approximately $901,000 to the Rate Stabilization Fund. As of the period ended June 30, 2010, the Wastewater System is projected to withdraw $2.1 million from the Rate Stabilization Fund for the period ending September 30, 2010. Wastewater rates were increased by 11.0% in the fiscal year ended September 30, 2009, and by 2.25% in the fiscal year ended September 30, 2010.

GRUCom continued to expand its services during the period from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008, with a slight decrease in sales for the fiscal year ended September 30, 2009. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008, GRUCom sales increased by approximately 10.8%. Between the fiscal years ended September 30, 2008 and September 30, 2009, GRUCom sales decreased by 1.1% likely due to the continued economic contraction. However, for the nine months ended June 30, 2010 as compared to the same period in 2009, GRUCom sales increased by 8.1%. For the fiscal year ended September 30, 2008, GRUCom contributed approximately $1 million to the Rate Stabilization Fund, which was a decrease from the prior year. For the fiscal year ended September 30, 2009, GRUCom contributed approximately $958,000 to the Rate Stabilization Fund. As of the period ended June 30, 2010, GRUCom is projected to withdraw nearly $816,000 from the Rate Stabilization Fund for the period ending September 30, 2010.

The Debt Service Coverage Ratio for Bonds increased from 2.32 for the fiscal year ended September 30, 2007 to 2.37 for the fiscal year ended September 30, 2008, and increased to 2.47 for the fiscal year ended September 30, 2009. For the nine months ended June 30, 2010 as compared to the same period in 2009, this ratio decreased from 2.41 to 2.20. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness increased from 2.05 to 2.12 from the fiscal year ended September 30, 2007 to the fiscal year ended September

30, 2008, and decreased to 2.05 for the fiscal year ended September 30, 2009. For the nine months ended June 30, 2010 as compared to the same period in 2009, this ratio decreased from 2.12 to 1.96. The increases in the Debt Service Coverage Ratio between the fiscal years ended September 30, 2007 and September 30, 2008 were the result of an increase in Total Debt Service of 16.2% and an 18.5% increase in Net Revenues between those same periods. The decrease for Debt Service Coverage Ratios for Bonds between the nine months ended June 30, 2010 as compared to the same period in 2009 is the result of an increase in Total Debt Service of 21.2% and a 10.9% increase in Net Revenues between those periods. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness increases between the fiscal years ended September 30, 2008 and September 30, 2009 are attributable to a Net Revenue increase of 12.9%, and an increase of only 8.3% in Total Debt Service between those same periods. The Debt Service Coverage Ratio for Bonds is projected to be 2.03% for the fiscal year ending September 30, 2010.

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined. Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund as permitted by the Resolution. The amounts of these transfers were as follows:

Transfers from (to) the Rate Stabilization Fund

	Fiscal Years Ended September 30, (dollars in thousands)			Balance at September 30,
	2007	**2008**	**2009**	**2009**[(1)]
Electric	$(4,372)	$(6,532)	$11,054	$41,182
Gas	1,160	1,987	(3,208)	6,901
Water	(1,274)	(1,074)	997	926
Wastewater	(581)	(1,271)	(901)	5,036
GRUCom	(1,692)	(1,086)	(958)	5,384
Total	$(6,759)	$(5,088)	$6,984	$59,429

(1) Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2009.

See also "Management's Discussion and Analysis" in APPENDIX B hereto. In addition, for a discussion of derivative transactions entered into by the System, see Note 4 to the financial statements of the System set forth in APPENDIX B attached hereto.

Transfers to General Fund

In the summer of 2000, the City Commission adopted a formula to determine the amount of System revenues to be transferred from the electric system to the General Fund. This formula was comprised of three components: a base component, an adjustment to the base, and an annually-calculated incentive component. The base component was established to represent an amount relatively equivalent to what the General Fund would receive if the System were an investor-owned utility system. The growth component adjusts the base in an amount that depends upon the increase/decrease in the amount of kWh delivered. The incentive component is an amount calculated after the end of the year and represents 3% of the net revenues from interchange/economy sales and sales for resale as well as a portion of the increase in the amount of kWh delivered greater than 3%.

The base component of the electric system transfer will decrease for fiscal year 2010. This will be the first time the three-year average of retail kWh delivered has been negative. Current sales forecasts, coupled with historical information, result in a projected base decrease through fiscal year 2012.

Since 1986, the transfers from the gas, water and wastewater systems have operated under a formula which provides for transfers to the General Fund in an amount equal to the sum of the following:

1. The amount of water and wastewater surcharges collected in the current fiscal year; and

2. 14.65% of gas, water and wastewater gross revenues for the second preceding fiscal year after deducting the following for the same second preceding fiscal year:

(a) surcharges,
(b) fuel expenses, and
(c) revenues from water sales to the University of Florida.

On October 1, 2005, the System began collecting a 10% surcharge on gas sales to customers outside of the City's corporate limits.

The GRUCom transfer to the General Fund for the fiscal year ended September 30, 2009 was set at $344,559.

The transfer to the General Fund may be made only to the extent such monies are not required to pay debt service on the Bonds (including the 2010 Series A, B and C Bonds) and Subordinated Indebtedness or to make other required payments under the Resolution, including payments into the Utilities Plant Improvement Fund.

The transfers to the General Fund made in the fiscal years ended September 30, 2007 through 2009 (as determined in accordance with the formulas described above, which are referred to herein as the "Original Formulas") were as follows:

Fiscal Years ended September 30,	**Transfers to General Fund**	
	Amount	**% Increase**
2007	$30,397,527	3.3
2008	$31,451,885	3.5
2009	$34,488,259	9.6

In March 2010, the System's staff presented an alternative approach to the City Commission, recommending that transfers to the General Fund for the combined utility system be fixed at the following levels for the fiscal years ending September 30, 2010 through September 30, 2014 and be paid from the combined revenues of the System:

Fiscal Years ending September 30,	**Transfers to General Fund**	
	Amount	**% Increase/(Decrease)**
2010	$34,234,920	(0.7)
2011	$35,154,463	2.7
2012	$36,222,989	3.0
2013	$36,666,551	1.2
2014	$38,101,425	3.9

This alternative will provide certainty around the transfers in uncertain economic times, allowing for cash flow predictability. Additionally, this alternative is consistent with the projections presented in the City's and the System's five-year forecast. Discussions with respect to transfers to the General Fund for the fiscal year ending September 30, 2015 will commence no later than September 1, 2013.

In an effort to avoid significant negative consequences to either the System or the City, the System's staff recommended and the City Commission accepted the following gain/loss sharing component.

The audited financial statements of GRU will be reviewed for the aforementioned fiscal years to determine what the transfers to the General Fund would have been under the Original Formulas.

1. If the difference between the calculated transfer per the Original Formulas is no greater than $500,000 over or under the agreed upon fixed level indicated in the table above for that particular audited year, then the transfer will remain unchanged.

2. If the difference between the calculated amount per the Original Formulas is greater than $500,000 over or under the agreed upon fixed level indicated in the table above for that particular audited year, then the City and the System will equally share the gain or loss for amounts greater than $500,000.

Investment Policies

The System's investment policy provides for investment of its funds to (i) obtain a maximum yield consistent with preservation of capital, (ii) obtain liquidity of its portfolio, (iii) satisfy Resolution requirements, and (iv) maintain prudent investment practices. The System's funds are invested only in securities of the type and maturity as permitted by the Resolution, Florida Statutes and its internal investment policy. See "Investment of Certain Funds and Accounts" and the definition of "Investment Securities" in "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION" in APPENDIX D hereto for a description of the types of investments that the City is permitted to make under the Resolution. The System does not presently have, nor does it intend to acquire in the future, derivative or leveraged investments or investments in mortgage-backed securities. The System does not invest its funds through any governmental or private investment pool (including, without limitation, the Local Government Surplus Funds Trust Fund administered by the State's Board of Administration).

Competition

In recent years, energy-related enterprises have become more influenced by the competitive pressures of an increasingly deregulated industry, especially the wholesale power market. The Florida retail electric system is under no immediate threat of market loss due to the current laws and regulations governing the supply of electricity in Florida, which presently prohibit any form of retail competition. The System's other enterprises currently are operating in competitive environments of one form or another. These competitive environments include the wholesale power market, natural gas system by-pass and competition against other LP distributors and alternative fuel types, private wells, septic tanks and privately owned water and wastewater systems, and the entire telecommunications arena for GRUCom.

Management's response to the increasing competition in the wholesale power market (including interchange and economy sales), and the corollary open access changes in the electric transmission network has been to stay involved and form strategic alliances. These alliances fall into two categories, joint ventures and industry associations. The most significant joint venture the System is currently involved in is TEA, a Georgia nonprofit corporation established for power marketing, fuels procurement, and financial hedging and risk management (see "ELECTRIC SYSTEM – Energy Sales – *The Energy Authority*" herein). The System has also become a member of Colectric, a member-owned collaborative business serving the public power industry. Colectric provides key services related to the development, project management, operations, and maintenance of electric generation, transmission, distribution, gas, and infrastructure facilities. Key benefits to the System have included sharing of spare parts and bulk purchasing of commodities and materials. The System's staff is very involved with the American Public Power Association, FMEA, and FMPA. These industry associations have proven to be a powerful way to stay informed, plan, and help shape federal and state policies to protect customer interests and assure the fair treatment of municipal systems.

The natural gas system has been subjected to competition due to the deregulation that has occurred in that industry since the early 1990's. A consequence of this deregulation for municipal gas utilities in Florida is that "end-users" are allowed to secure and purchase their gas requirements directly from gas producers,

thereby "bypassing" the monopoly producer/pipeline systems. The System's rate structures largely avoid this concern. The System passes fuel costs directly through its purchased gas adjustment, and rates applicable for transportation of system by-pass are allowed to earn a return on distribution infrastructure, which is the sole basis for the System's revenue requirements. Thus, a customer electing to bypass the System simply substitutes its ability to buy gas for the System's ability to buy gas. The sole example of bypass experienced by the System to date was in the case of service to PEF's cogeneration plant at the University of Florida wherein the amount of non-fuel revenue realized from the customer was virtually unchanged by its decision to contract for its own gas supply. Several strategies are being implemented to gain a competitive advantage for the System in natural gas sales growth. Two very significant competitive advantages are the System's position of having among the lowest gas rates in the State, and the environmental benefits of natural gas for certain appliance end uses. Appliance and distribution system construction rebates, in combination with temporary LP distribution systems, are employed to rapidly and flexibly accommodate new development. These LP systems and appliances are converted to natural gas when gas pipeline extensions become feasible. Rebates are also used to assist customers in overcoming the short-term economic obstacles of converting existing electric appliances to natural gas in order to allow them to obtain long-term financial, convenience, and environmental benefits, both inside and outside the System's electrical service territory. The System has franchises to provide retail natural gas services to two nearby cities in the County, Alachua and High Springs. See "THE NATURAL GAS SYSTEM – Service Area" herein for a discussion of the status of the System's franchise agreement to provide natural gas service in Alachua.

Private wells, septic tanks, and privately owned water utilities are the traditional alternatives for water and wastewater utility services and serve small populations where service from centralized facilities is less practical or desirable. Comprehensive planning in the City and the surrounding unincorporated areas strongly discourages urban sprawl, and the System's incumbent status, competitive rates and environmental record have resulted in a very favorable competitive position, with sustained high levels of market capture from population growth.

GRUCom operates in the fully deregulated and competitive telecommunications environment. Management has taken a very targeted approach to this enterprise, seeking opportunities that maximize GRUCom's competitive advantages, which include high bandwidth fiber optic-based facilities, protocols not readily available in the traditional telco system, such as gigabit Ethernet available antenna towers and tall structures (from the System's microwave SCADA system and water tanks), experience in public safety operations, and close working relationships with the development industry. Rather than a mass-market approach, GRUCom is primarily a business-to-business company working with established carriers, major institutions, and users of high volume bandwidth for voice, data and Internet applications. In the last several years, Florida was one of several states in which incumbent telecommunication carriers launched legislation designed to impede municipal involvement in telecommunications. The attempt in Florida did not have negative consequences on the System.

The System currently is pursuing opportunities related to several large development projects occurring in the service territory to diversify revenues while investing in energy efficient systems, as was successfully pursued in the South Energy Center. Due to the existing knowledge, experience, infrastructure and resources within the System's core utilities, it has a competitive advantage as it focuses on chilled water services, and emergency backup power opportunities.

Chilled water provides an additional revenue source, while providing a more efficient, cost effective cooling system that is consistent with environmental stewardship. The System's strategy for chilled water service does not depend on extensive distribution systems; instead, each chilled water and generation facility is located on the premises of the development. This strategy will limit the System's exposure for stranded assets or investing in infrastructure without having full subscription to the available service, especially at a time when development has slowed significantly.

GRUCom has continued to maintain a competitive position by developing new services and expanding its market. The System is currently co-locating telecommunication service provider facilities at its central office. These include web site host servers, Internet service providers, for example, who are willing to

lease access to space, redundant and uninterruptible power, and excellent fiber access at beneficial rates. The demand for these services has outstripped supply in the community and the System is evaluating options for further expanding their availability, which will also enhance local economic development.

Currently, there is no initiative and little indication of interest in pursuing retail electric deregulation either in Florida or nationwide. Management has a renewed focus on maintaining and improving the projected levels of Net Revenues, Debt Service coverage, and the overall financial strength of the System. To be successful at this, the System will require many of the same goals and targets necessary to be prepared for retail competition. These goals and targets relate to enhancing customer loyalty and satisfaction by providing safe and reliable utility services at competitive prices.

Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition

GRU has entered into certain agreements that contain provisions giving counterparties certain rights and options in the event of a downgrade in GRU's credit ratings below specified levels and/or the occurrence of certain other events or circumstances.

The table below sets forth the current ratings for GRU's outstanding Utilities System Revenue Bonds and GRU's outstanding Commercial Paper Notes, as assigned by Moody's, S&P and Fitch Ratings ("Fitch"). Given its current levels of ratings, Management does not believe that the rating and other credit-related triggers contained in any of its existing agreements will have a material adverse effect on GRU's liquidity, results of operations or financial condition. However, GRU's ratings reflect the views of the rating agencies and not of GRU, and therefore, GRU cannot give any assurance that its ratings will be maintained at current levels for any period of time.

	Moody's	S&P	Fitch
Outstanding Utilities System Revenue Bonds	Aa2	AA	[to come]
Outstanding Commercial Paper Notes.....	P1	A-1+	N/A

Liquidity Support for GRU's Variable Rate Bonds

GRU has entered into standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the Variable Rate Utilities System Revenue Bonds, 2005 Series C, the Variable Rate Utilities System Revenue Bonds, 2006 Series A, the Variable Rate Utilities System Revenue Bonds, 2007 Series A, and the Variable Rate Utilities System Revenue Bonds, 2008 Series B (collectively the "Liquidity Supported Bonds"). The standby bond purchase agreements relating to the Liquidity Supported Bonds provide that any Liquidity Supported Bond that is purchased by the applicable bank pursuant to its standby bond purchase agreement may be tendered or deemed tendered to GRU for payment upon the occurrence of certain "events of default" with respect to GRU under such standby bond purchase agreement. Upon any such tender or deemed tender for purchase, the Liquidity Supported Bond so tendered or deemed tendered will be due and payable immediately.

In general, each standby bond purchase agreement provides that it is an "event of default" on the part of GRU thereunder if the ratings on the Liquidity Supported Bonds to which such standby bond purchase agreement relates, without giving effect to any third-party enhancement, fall below "Baa3" by Moody's and "BBB-" by S&P or are suspended or withdrawn for credit-related reasons.

Liquidity Support for GRU's Commercial Paper Program

GRU also has entered into credit agreements with certain commercial banks in order to provide liquidity support for the Series C CP Notes. If, on any date on which a commercial paper note matures, GRU is not able to issue additional commercial paper note(s) to pay such maturing commercial paper note, subject to

the satisfaction of certain conditions, the applicable bank is obligated to honor a drawing under its credit agreement in an amount sufficient to pay such maturing commercial paper note.

The credit agreements provide that, upon the occurrence and continuation of certain "tender events" on the part of GRU thereunder, the banks may, among other things, (a) issue "No-Issuance Instructions" to the issuing agent for the commercial paper notes, instructing such paying agent not to issue any additional commercial paper notes thereafter, (b) terminate the commitment and the applicable bank's obligation to make loans or (c) require immediate payment from GRU for any outstanding principal and accrued interest due under the respective credit agreement.

Among others, it is a tender event on the part of GRU under both credit agreements if the ratings assigned to any of GRU's long-term debt obligations ratings fall below "Baa2" by Moody's and "BBB" by S&P or are suspended or withdrawn for credit-related reasons.

Any drawing made under a credit agreement bears interest at the rate per annum set forth in such credit agreement, which rate may be significantly higher than market rates of interest borne by GRU's commercial paper notes.

Interest Rate Swap Transactions

GRU has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the Utilities System Revenue Bonds, 2005 Series B, the Variable Rate Utilities System Revenue Bonds, 2005 Series C, the Variable Rate Utilities System Revenue Bonds, 2006 Series A, the Variable Rate Utilities System Revenue Bonds, 2007 Series A and the Variable Rate Utilities System Revenue Bonds, 2008 Series C, as well as the Series C CP Notes. For additional information concerning those interest rate swap transactions, see the footnotes to the table under the heading "OUTSTANDING DEBT" herein.

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to GRU is a suspension or withdrawal of certain credit ratings with respect to GRU, or a downgrade of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, GRU may owe the applicable counterparty a termination payment, the amount of which could be substantial. The amount of any such potential termination payment would be determined in the manner provided in the applicable master agreement and would be based primarily upon prevailing market interest rate levels and the remaining term of the interest rate swap transaction at the time of termination. In general, the ratings triggers on the part of GRU contained in the master agreements range from (x) below "Baa2" by Moody's and "BBB" by S&P to (y) below "A2" by Moody's and "A" by S&P.

As of September 30, 2009, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (i.e., the net amount of the termination payments that GRU would owe its counterparties if all of the interest rate swap transactions were terminated) was $(37,735,161). As of September 30, 2010, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was $(57,808,074).

GRU has elected a retrospective adoption of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to address the recognition, measurement and disclosure of information for derivative instruments, effective September 30, 2010. The impact on GRU's financial position is currently being evaluated and has not yet been determined. The information in the table under "SUMMARY OF COMBINED NET REVENUES" reflects adjustments required for GASB Statement No. 53 with respect to the nine months ended June 30, 2009, and the nine months ended June 30, 2010. These adjustments did not affect Net Revenues, and only affected balance sheet accounts.

Coal Supply Agreements

The System's coal supply agreements with each of Premier Elkhorn and Patriot contain provisions entitling Premier Elkhorn and Patriot to exercise certain rights based upon the System's creditworthiness.

The coal supply agreement with Premier Elkhorn provides that if Premier Elkhorn has "reasonable grounds" to believe that the creditworthiness of the System is or has become unsatisfactory, it may (i) suspend shipments to the System until the System provides satisfactory written assurances that it will be able to abide by the terms of the coal supply agreement and/or (ii) declare an event of default and terminate the coal supply agreement. However, the coal supply agreement with Premier Elkhorn does not contain a definition of "reasonable grounds." Unless and until the System provides written assurances to Premier Elkhorn of its creditworthiness, Premier Elkhorn may, in lieu of suspension of services, require the System to prepay for any shipment of coal in full prior to delivery.

Under the terms of the coal supply agreement with Patriot, Patriot has the right to require the System to provide additional collateral as security for its obligations under the agreement if the System or any of its affiliates receive a senior unsecured or corporate credit rating below investment grade (a rating of "BBB-" by S&P or an equivalent rating from other public rating agencies). Such additional collateral may be in the form of cash, qualifying letters of credit, or other security reasonably acceptable to Patriot. Failure of the System to provide additional collateral to Patriot will constitute an event of default under the coal supply agreement and Patriot will have the right to terminate the agreement if the default is not adequately cured. Additionally, Patriot will also have the right to require payment from the System in cash at least three business days in advance of loading until the System provides Patriot with adequate security. If such payment is not received, Patriot may withhold or suspend delivery of its coal.

In the event that any of the System's coal supply agreements are suspended or terminated, the System would have to acquire coal at market rates, which rates could be in excess of the rates that were provided for in such agreement. In addition, if a coal supply agreement is terminated, the System may be required to make a termination payment to the applicable seller that would be based upon then current market prices for coal, which payment could be substantial.

Power Purchase Agreements

The System's PPAs with GREC and PEF, respectively, contain provisions entitling GREC and PEF, as applicable, to exercise certain rights based upon the System's creditworthiness.

Pursuant to the PPA with GREC, within ten days after the biomass-fueled electric generating facility's commercial operation date, the System will be required to pay or provide GREC with a security deposit equal to $40 million as security for the System's performance of its obligations under the PPA (the "Purchaser's Performance Security"), if the System has a senior unsecured debt rating below "A-" from S&P or below "A3" from Moody's. At the sole discretion of the System, such security deposit may be in the form of an interest bearing cash account, an irrevocable direct pay letter of credit, or a performance bond. In the event the System's senior unsecured debt has an S&P credit rating of "A " or above or a Moody's credit rating of "A3" or above, then the System's obligations to provide the Purchaser's Performance Security no longer shall be required.

Additionally, the PPA with GREC provides that the System will be required to provide GREC, if reasonably requested, with performance assurances if there is a material adverse change in (i) the business, assets, operation or financial condition of the System taken as a whole or (ii) the ability of the System to pay or perform its material obligations under the PPA in accordance with the terms thereof. Failure to provide such assurances would constitute a "Purchaser Event of Default" and would provide GREC with the right to terminate the PPA.

The System has also entered into two PPAs with PEF. Each of the System's PPAs with PEF provides that PEF has the right to require the System to provide additional collateral as security for its obligations under the applicable PPA if a "Material Adverse Financial Event" occurs. A Material Adverse Event is defined in

each PPA as a drop in the System's unsecured, senior long-term debt or deposit obligations credit ratings (not supported by third party credit enhancement) below "BBB" from S&P or "Baa3" from Moody's. If the System experiences a Material Adverse Financial Event, each PPA provides that the System will be required to provide "Performance Assurance" which may consist of either (i) prepayment to PEF for its services under the applicable PPA or (ii) reasonably sufficient and acceptable security of a continuing nature in an amount at least equal to the cost of service under the applicable PPA for the most recent three-month period. The System will not be obligated to provide Performance Assurance if its credit ratings return to the levels they were at prior to the Material Adverse Financial Event. If the System does not provide PEF with adequate Performance Assurance within fifteen days of its receipt of PEF's written request, an event of default under the applicable PPA will occur and PEF will have the right to terminate such PPA or immediately cease performance thereunder.

In the event that any of the above-described PPAs are suspended or terminated, the System would have to acquire electric capacity and energy at market rates, which rates could be in excess of the rates provided for in the suspended or terminated PPA. In addition, if a PPA is terminated, the System may be required to make a termination payment to the applicable seller that would be based upon then current market prices for electric capacity and/or energy, which payment could be substantial.

FACTORS AFFECTING THE UTILITY INDUSTRY

General

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization ("ERO") under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. The FCBBS was instituted at the FPSC's request in lieu of a further restructuring of the wholesale energy markets or the formation of independent transmission systems in Florida. The FCBBS is a system whereby the hourly incremental and decremental cost of participating utilities' generation are matched high to low and the saving/benefits thus obtained are split between the pair, after adjusting for wheeling charges and losses. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation (SB 1322) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although the System has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the System would implicate certain of the requirements of SB 1322. Management of the System does not expect that any required compliance with the requirements of SB 1322 would have a material adverse effect on the operations or financial condition of GRUCom.

The System cannot predict what effects these factors will have on the business, operations and financial condition of the System, but the effects could be significant. The following sections of this caption provide brief discussions of certain of these factors. However, these discussions do not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement.

Environmental and Other Natural Resource Regulations

The System is subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO_2 and NO_x into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations are generally becoming more numerous and more stringent, and as a result, may substantially increase the costs of the

System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities. There is no assurance that the System's facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Failure to comply with regulatory requirements could result in the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties. Compliance with regulatory standards will continue to be reflected in capital and operating costs. Increasing concerns about climate change and the effects of GHGs on the environment likely have increased the possibility that regulations governing carbon emissions will be adopted at the federal or state levels. Management is unable to predict whether and when such regulations will be adopted, the potential effects of any such regulations on the operations of the System or the costs associated therewith. Nonetheless, Management is aggressively pursuing strategies to develop facilities to provide renewable and low-carbon intensity generation capacity (see "THE ELECTRIC SYSTEM – Future Power Supply" herein).

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO_2 and NO_x from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

The Clean Air Act also requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo a "new source review," which requires the identification and implementation of Best Available Control Technology ("BACT") for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities. In September 2000, the System received from the EPA a Request for Information pursuant to its authority under Section 114 of the Clean Air Act. The System timely provided the requested information to the EPA in two submittals; one in November 2000 and the other in January 2001. To date, the EPA has not replied, nor made any further inquiries.

The Clean Air Interstate Rule

In March 2005, the EPA issued CAIR, which requires reductions of overall NO_x and SO_2 emissions. CAIR is a two-phase cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. The System's Deerhaven and JRK Stations are subject to CAIR. Significant capital and operating and maintenance expenditures have been incurred to meet the 2009 and 2010 CAIR compliance dates for Phase I of the NO_x and SO_2 emission caps, respectively. Management decided that the best long-term compliance option for the System was the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. GRU has installed an SCR, a dry scrubber system, and a fabric filter system at Deerhaven 2, all of which went on-line May 1, 2009. An Engineer, Procure, and Construct contractor was used to construct the needed facilities. The dry scrubber system is not yet fully functional, but Management expects that full functionality will be achieved by the end of calendar year 2009.

On July 11, 2008, a three judge panel of the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court") in *North Carolina v. Environmental Protection Agency*, 531 F.3d 896 ("*North Carolina v. EPA*"), unanimously vacated CAIR. On December 23, 2008, the D.C. Circuit Court remanded the CAIR case to the EPA to revise CAIR consistent with its July 11, 2008 decision in *North Carolina v. EPA*. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This has the effect of reinstating CAIR, including the trading programs, until the EPA issues a new rule consistent with the court's decision. As a result of the decision, more stringent regulatory limits could be imposed, or there may be a delay or acceleration in the effective dates of federal requirements to reduce emissions.

The Clean Air Transport Rule

On August 2, 2010, the EPA published in the Federal Register a proposed Clean Air Transport Rule (the "Transport Rule") to reduce the interstate transport of fine particulate matter and ozone. Under Section 110(a)(2)(D)(i)(I) of the Clean Air Act, states are required to prohibit emissions that contribute significantly to nonattainment in, or interfere with maintenance by, any other state with respect to any primary or secondary National Ambient Air Quality Standards ("NAAQS"). In the proposed Transport Rule, the EPA asserts that emissions of SO_2 and NO_x in 32 eastern states contribute significantly to nonattainment or interfere with maintenance of NAAQS in one or more downwind states, more specifically with respect to the annual PM2.5 NAAQS, the 24-hour average PM2.5 NAAQS, and the ozone NAAQS. The proposed Transport Rule contains one preferred "remedy" option and two alternate schemes. The EPA's preferred option establishes a cap-and-trade program with certain "variance" provisions and limited interstate trading. The EPA is requesting comment on all three options.

Many utility organizations are involved in the review and preparation of comments on the proposed Transport Rule. The System has reviewed the rule and submitted comments to the EPA, both singly and jointly through FMEA. Under the proposed Transport Rule, a significant reduction in the number of SO_2 allowances would be granted to the System, which appears to be due, in part, to errors with the input data the EPA used in their allocation model.

The Clean Air Mercury Rule

CAMR was a federal cap and trade program for mercury emissions designed to facilitate compliance and would have capped total mercury emissions in the United States at 38 tons in 2015 and 15 tons in 2018. On February 8, 2008, a three judge panel of the D.C. Circuit Court in *New Jersey et al. v. Environmental Protection Agency*, 517 F.3d 574, unanimously vacated CAMR. An appeal of this decision to the United States Supreme Court was dismissed in February 2009, and therefore CAMR will not be implemented. As a result, the EPA is developing Maximum Achievable Control Technology requirements for control of mercury emissions from new and existing power plants under Section 112 of the Clean Air Act. The EPA anticipates proposing new standards in early 2011 with a finalized rule by November 2011.

Multi-Pollutant Legislation

On February 4, 2010, Senators Tom Carper and Lamar Alexander introduced bill number S.2995, the Clean Air Act Amendments of 2010, to the United States Senate. The bill proposes mandatory emission reductions of NO_x, SO_2 and mercury from electric utilities, which would ultimately be more stringent than the emission controls under CAIR and CAMR. This bill is in the early stages of development so it cannot be determined if this bill will eventually become law. As a result, it is too early to determine the impact, if any, such a law and any implementing regulations may have on the System.

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas

throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology. Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO_2 and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Stations – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at Deerhaven 2 and reduce SO_2 and NO_x emissions that potentially contribute to regional haze.

Internal Combustion Engine MACT

On August 20, 2010, the EPA published a final rule for the National Emissions Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines, which covers existing stationary spark ignition reciprocating internal combustion engines located at major sources of hazardous air pollutant emissions such as power plant sites. This final rule, which became effective on October 19, 2010, requires the reduction of emissions of hazardous air pollutants from covered engines. None of the System's reciprocating engines are covered by this new rule.

Climate Change

Global Climate Change

The Kyoto Protocol prescribed reduction targets for the emission of CO_2 and other GHGs. Although the United States has not ratified the Kyoto Protocol, federal proposals are expected to be introduced to the United States Congress that would, if adopted, implement some form of regulation or taxation to reduce or mitigate GHG emissions. See "THE ELECTRIC SYSTEM – Future Power Supply" herein for a description of the System's efforts to meet the Kyoto Protocol's target GHG emission rates.

Federal Regulation

Control of GHGs such as CO_2 is receiving a great deal of attention within the United States. On April 2, 2007, the United States Supreme Court issued a decision in *Massachusetts v. EPA* holding that GHG emissions are "air pollutants" under the Clean Air Act requiring the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the "endangerment finding" under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO_2, methane, nitrous oxides, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change. The issuance of the "endangerment finding" triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles. Such regulations were finalized on April 1, 2010, when the EPA and the United States Department of Transportation issued a joint final rule imposing GHG emission standards on light-duty vehicles (cars and light trucks). That regulation takes effect on January 2, 2011.

On March 29, 2010, the EPA affirmed its position that air pollutant emissions that are actually controlled by regulation under the Clean Air Act under any program must be taken into account when considering permits issued under other programs, such as the PSD permit program. A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. As a result of this determination, the effect of the new motor vehicle rule will be to require the analysis of emissions and control options with respect to GHG emissions from new and modified major stationary sources

as of January 2, 2011, which is the date the new motor vehicle rule takes effect. Permitting requirements for GHGs will include, but are not limited to, the application of BACT for GHG emissions, and monitoring, reporting and recordkeeping for GHGs.

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the "Tailoring Rule," establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO_2e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

On January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil-fuel based electric generating facilities for their NO_x, SO_2 and other emissions) will have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources will become subject to PSD requirements for their GHG emissions if the construction or modification results in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO_2e basis. New and modified major sources required to obtain a PSD permit would be required to conduct a BACT review for their GHG emissions. The EPA intends to issue guidance before the end of 2010 on the technologies or operations that would constitute BACT for GHGs. With respect to Title V requirements, as of January 2, 2011, sources that are required to have Title V permits for non-GHG pollutants will be required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO_2e applicability threshold does not apply, so when any source applies for, renews, or revises a Title V permit, then Clean Air Act requirements for monitoring, recordkeeping and reporting will be included.

On October 30, 2009, the EPA published the final rule for mandatory monitoring and annual reporting of GHG emissions from various categories of facilities including fossil fuel suppliers, industrial gas suppliers, direct GHG emitters (such as electric generating facilities and industrial processes), and manufacturers of heavy-duty and off-road vehicles and engines. This rule does not require controls or limits on emissions, but requires data collection beginning January 1, 2010, and the first annual reports due March 31, 2011. The System's costs of compliance with these new regulations are not fully known at this time. The requirements for monitoring, reporting and record keeping with respect to GHG emissions from existing units should not have a material adverse effect, based on the System's understanding of the rules at this time.

In addition to legislative and regulatory activities, and the *Massachusetts v. EPA* case, many of the issues raised by global climate change are being litigated in courts throughout the United States. Other recent litigation addresses the extent to which a reviewing federal agency must consider the impact of GHG emissions in the National Environmental Policy Act environmental review process. There are also on-going litigation and administrative review actions in which it is being argued that BACT is required for CO_2 emissions from new or modified sources under the Clean Air Act. The System cannot currently predict how GHG emissions issues will arise in connection with pending or future permit proceedings or whether litigation based on climate change issues will adversely affect the System's construction and development plans.

State Regulation

In 2007, Florida Governor Charlie Crist effectively stopped all work on proposed coal-fired generating plants in the State due to his concern over the impact of CO_2 emissions on climate change. In July 2007, Governor Crist issued three Executive Orders focused on reducing emissions of CO_2 and other GHGs in the State. The Executive Orders established nonbinding goals to reduce GHGs to year 2000 levels by 2017, to year 1990 levels by 2025 and to 80% below 1990 levels by 2050. The Executive Orders also directed the FDEP to implement rules requiring electric utilities and others to meet these goals. On April 30, 2008, the Florida Legislature passed new energy legislation which gives legislative authority to some of Governor Crist's Executive Orders. The legislation directs the FPSC to develop rules requiring electric utilities to increase the use of renewable fuels and allows the FDEP to develop a Florida-specific cap and trade program

to reduce GHG emissions from electric utilities. The FPSC must bring these rules to the Florida Legislature for ratification in 2009. The FDEP must bring any such program to the Florida Legislature for ratification no sooner than 2010. The Florida Legislature did not set numerical goals for reducing GHG emissions, and the FDEP has placed the development of GHG regulations on hold for an indefinite period.

Coal Ash

On May 4, 2010, the EPA released the text of a proposed rule describing two possible regulatory options it is considering under the Resource Conservation and Recovery Act ("RCRA") for the disposal of coal ash generated from the combustion of coal by electric utilities and independent power producers. Under either option, the EPA would regulate the construction of impoundments and landfills, and seek to ensure both the physical and environmental integrity of disposal facilities.

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as "special wastes" subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory requirements applicable to such wastes. Under this option, coal ash would be subject to technical and permitting requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

Under the second proposed regulatory option, the EPA would regulate the disposal of coal ash under Subtitle D of RCRA, the regulatory program for non-hazardous solid wastes. Under this option, the EPA is considering issuing national minimum criteria to ensure the safe disposal of coal ash, which would subject disposal units to location standards, composite liner requirements, groundwater monitoring and corrective action standards for releases, closure and post-closure care requirements, and requirements to address the stability of surface impoundments. Existing surface impoundments would not have to close or install composite liners and could continue to operate for their useful life. The second option would not regulate the generation, storage, or treatment of coal ash prior to disposal, and no federal permits would be required.

The proposed rule also states that the EPA is considering listing coal ash as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA," which is commonly known as "Superfund"), and includes proposals for alternative methods to adjust the statutory reportable quantity for coal ash. The extension of CERCLA to coal ash could significantly increase the System's liability for cleanup of past and future coal ash disposal.

The EPA has not decided which regulatory approach it will take with respect to the management and disposal of coal ash. The System is therefore unable to determine the effects of this proposed rule at this time.

Storage Tanks

The System is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. The System has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks and two above-ground No. 6 oil tanks, and the Deerhaven Station has one above-ground distillate and two above-ground No. 6 oil tanks. All of the System's

fuel storage tanks have secondary containment and/or interstitial monitoring and the System is insured for the requisite amounts.

Nuclear Waste Disposal Regulation

On January 7, 1983, the Nuclear Waste Policy Act of 1982 (the "NWP Act") became effective. In general, the NWP Act provides the basis on which the federal government will carry out its regulatory responsibility for the final disposition of commercially-produced high-level radioactive waste materials, which include spent nuclear fuel, through (i) the establishment of a schedule for the development and implementation of nuclear waste disposal sites and (ii) the establishment of payments to the federal government to cover the costs of disposal associated both with existing inventories of spent nuclear fuel and with spent nuclear fuel resulting from future electric generation. The cost of disposing of spent nuclear fuel is a fuel cost and is passed through directly to System ratepayers. The System has satisfied all of its financial obligations in respect to disposing of existing inventories of spent nuclear fuel. The federal government has also established standards in connection with the liability insurance to be maintained in connection with nuclear facilities. See "INSURANCE" herein for a description of liability insurance maintained by and on behalf of the System and legal insurance requirements in connection with CR-3.

The NRC has promulgated regulations mandating the establishment of funded reserves to assure financial capability for the eventual decommissioning of licensed nuclear facilities. The System and several other municipal utilities have entered into an agreement with FMPA wherein FMPA has engaged a fiduciary to act as trustee of the reserve to fund the participants' share of decommissioning CR-3. The external fund is accruing from revenues in amounts currently estimated to be sufficient to pay for decommissioning costs.

Superfund and Remediation Sites

CERCLA, as well as parallel state statutes, require cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering PRPs liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. The System is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these statutes. The System's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the System. The System is no more than a "de minimis" party at this site and has already resolved its liability with the EPA and is currently working with the State to resolve State liability issues.

The System also was a PRP at the following sites: Rose Chemical in Holden, Missouri; Peak Oil in Tampa, Florida; PCB Treatment, Inc. in Kansas City, Missouri; Osage Metals in Kansas City, Missouri; and Mowbray Engineering in Greenville, Alabama. The System's liability for these sites has been resolved through settlements reached with the EPA and, in the case of Rose Chemical, the Rose Chemical Steering Committee. The Georgia Environmental Protection Department has asserted that the System is a PRP at the Holley Electric site in Jesup, Georgia ("Holley Electric"). At this time, the System's liability at this site is not clear as information developed to date indicates that the System's wastes handled by Holley Electric were properly disposed of at another, unrelated site. The System is voluntarily participating in a PRP group to conduct certain investigations to clarify its status. Management does not anticipate that the System's liability for this site, if any, will be more than "de minimis."

Management is not aware of any actions by private third-parties which have been brought or are imminent against the parties that contributed wastes to any of the sites described above. The extent of any potential third-party liability cannot be predicted at this time.

Several site investigations have been completed at the JRK Station, most recently in 2003. While there is evidence of soil impacts, the soil analyses results indicate that they are generally below the State's risk-based soil cleanup criteria. There are no groundwater impacts above the regulatory standards. Initial remedial

measures instituted in the mid-1990s are still in-place. Additional site assessment data was submitted to the regulatory agencies in 2004. Discussions with the agencies regarding the remediation and/or monitoring are underway. Additional site assessments are currently underway in accordance with an FDEP-approved plan.

See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" and "THE WATER SYSTEM – Water Treatment and Supply" herein for a discussion of other remediation issues.

Water Use Restrictions

Pursuant to Florida law, a water management district in Florida may mandate restrictions on water use for non-essential purposes when it determines such restrictions are necessary. The restrictions may either be temporary or permanent. The SJRWMD has mandated permanent district-wide restrictions on residential and commercial landscape irrigation. The restrictions limit irrigation to no more than two days per week during Daylight Savings time, and one day per week during Eastern Standard time. The restrictions apply to centralized potable water as provided by the System as well as private wells. All irrigation between the hours of 10:00 a.m. and 4:00 p.m. is prohibited.

Wholesale and Retail Electric Restructuring

Energy Policy Act of 1992

The Energy Policy Act of 1992 (the "1992 Energy Policy Act") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased wholesale electric competition. In particular, the 1992 Energy Policy Act provided FERC with the authority, upon application by an electric utility, federal power marketing agency, or other power generator, to require a transmitting utility to provide transmission services to the applicant essentially on a cost-of-service basis. Municipally-owned electric utilities are "transmitting utilities" for purposes of these provisions of the 1992 Energy Policy Act. At this time, FERC does not have the authority to require "retail wheeling," under which a retail customer of one utility could obtain power from another utility or non-utility power generator.

The energy efficiency title of the 1992 Energy Policy Act required states and utilities to consider adopting IRP, which allows utility investments in conservation and other DSM techniques to be at least as profitable as supply investments. The FPSC has adopted IRP as a standard. The 1992 Energy Policy Act also established new efficiency standards in industrial and commercial equipment and lighting and required states to establish commercial and residential building codes with energy efficiency standards. Additionally, the 1992 Energy Policy Act required utilities to consider energy efficiency programs in their IRP's. The effects on the System, if any, of these standards and requirements cannot be determined at this time.

FERC Transmission Initiatives

On April 24, 1996, FERC issued two final rules to address and implement the transmission access provisions of the 1992 Energy Policy Act. Order Nos. 888 and 889, as amended by Order Nos. 888A and 889A in 1997, were intended to deny to public utilities any unfair advantage over competitors resulting from their ownership and control of transmission facilities and required FERC-jurisdictional public utilities to file pro forma, open access, nondiscriminatory transmission tariffs. In Order Nos. 890, 890-A and 890-B, issued (respectively) in February and December 2007 and June 2008, FERC reaffirmed and modified the requirements under Order Nos. 888 and 888-A, specifically, by modifying the transmission tariff provisions on (among other things) calculating available transfer capability, transmission planning, point-to-point transmission service options, energy imbalance service, rollover rights for long-term firm transmission service, and the price caps on capacity reassignments. Under the reciprocity requirement adopted in Order No. 888 and reaffirmed in Order No. 890, non-jurisdictional utilities (such as the System) must provide comparable transmission service as a condition of receiving service from jurisdictional utilities under the pro forma tariff.

The System offers reciprocal transmission services and TEA is a separate marketing organization which allows the System to comply with these orders.

In December 1999, FERC issued its Order No. 2000. Order No. 2000 represents a further measure in FERC's attempt to foster competition in wholesale power markets by encouraging all transmission-owning utilities, including municipal utilities, electric cooperatives and other public power entities, to join regional transmission organizations ("RTOs"). The implications of Order No. 2000 were further clarified and deepened when FERC issued a Notice of Proposed Rulemaking for a standard market design ("SMD") to accompany the formation of independent system operators/RTOs. Although this has occurred in many areas of the country, interest in forming such an organization in Florida seems to have diminished. The 2005 Energy Policy Act (hereinafter defined) has further defused the impact of Order No. 2000 by making the SMD non-mandatory. See "*Energy Policy Act of 2005*" below.

In October 2008, FERC issued Order No. 717, which, among other things, amended FERC's Standards of Conduct for Transmission Providers to make them clearer and to refocus the rules on the areas where there is the greatest potential for abuse. The System believes that its participation in TEA and related procedures satisfies the reforms to the standard of conduct included in FERC's final rule without material impact on the System's costs.

Florida has a longer history of quasi open-access transmission than many other parts of the country. An "Energy Broker" system was adopted in the late 1970's to promote efficient generation dispatch. The Energy Broker was eventually replaced by a strong system of bilateral agreements in the aftermath of Order Nos. 888 and 889, but has been reinstituted as the FCBBS as described above.

Energy Policy Act of 2005

The Energy Policy Act of 2005 (the "2005 Energy Policy Act") was signed into law in early August 2005. The 2005 Energy Policy Act addresses, among other things: energy efficiency; appliance standards; low income energy assistance programs; renewable energy; nuclear energy; electricity; and provides incentives for oil and gas production and encourages deployment of clean coal technology. The electricity portion of the 2005 Energy Policy Act addresses the following areas: (i) the need for modernization of existing transmission facilities, transmission rate reform and improved operations of existing transmission facilities; (ii) electric reliability standards; (iii) Public Utility Holding Company Act ("PUHCA") and Public Utility Regulatory Policies Act ("PURPA") amendments (including repeal of PUHCA); (iv) market transparency, round trip trading prohibition and enforcement; and (v) merger reform. The 2005 Energy Policy Act imposes mandatory electric reliability standards to be defined through NERC and enforced by FERC.

The 2005 Energy Policy Act added several new standards to PURPA and required each electric system covered by each standard to make a determination as to whether or not to adopt that standard. These standards addressed net metering for distributed generation, time differentiated electric rates, advanced metering technologies, diverse fuel supplies, and efficient electric generation. After the appropriate public involvement process, the System has adopted voluntary time of use rates for all rate categories, net metering (mostly used for solar prior to implementing the solar FIT), and determined that formally adopting the remaining standards were either not cost-effective or would not affect the System's already significant commitments to price signals to promote energy conservation, fuel diversity, and highly efficient generation resources.

The 2005 Energy Policy Act empowered FERC to enforce mandatory compliance with the Bulk Electric System reliability standards. FERC delegated policy enforcement and standard development to NERC who, in turn, delegated regional enforcement and monitoring to the FRCC in the State to become the ERO monitoring the System's compliance. The standards of compliance with the new ERO have begun a process of rapid development and change and the System is carefully keeping up with these developments to assure full compliance.

Currently, there are over 130 reliability standards with over 1,000 requirements and sub-requirements to which electric utilities must comply. The System is a "registered entity" with NERC and FRCC under the following eleven functional categories and must comply with all standards applicable to those categories:

- Balancing Authority
- Distribution Provider
- Generation Owner
- Generation Operator
- Interchange Authority
- Load Serving Entity
- Planning Authority
- Resource Planner
- Transmission Owner
- Transmission Operator
- Transmission Planner

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Owner and is therefore subject to the 3-year on-site audit cycle. From April 20, 2009 through April 24, 2009, FRCC compliance auditors conducted an on-site audit for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system as listed above. FRCC found only five alleged violations pursuant to this audit. On February 8, 2010 through February 10, 2010, FRCC also conducted a spot check audit of the System's compliance with Critical Infrastructure Protection standards and requirements, finding no violations. All outstanding issues were resolved in a tentative settlement between FRCC and the System on September 21, 2010, which will be submitted to NERC for its review and approval. GRU's next on-site reliability compliance audit will be in 2012.

The 2005 Energy Policy Act also provides for tax incentives that further encourage production, conservation and the use of technology to stabilize energy prices and protect the environment. Landfill gas is clearly designated as a renewable resource for Renewable Energy Production Incentive ("REPI**"**) funding, which is to the System's benefit. The System intends to explore the opportunities for financial assistance from the funds appropriated in the 2005 Energy Policy Act for energy conservation, renewable energy, and clean coal technology.

It is not possible at this time to predict all final forms and possible effects of all the consequent rulemaking and programs that that will be enacted to implement the 2005 Energy Policy Act.

INSURANCE

The System maintains insurance coverage in amounts and with respect to risks consistent with prudent utility practice. In addition, the City is required by the Resolution to maintain insurance. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Insurance" in APPENDIX D hereto.

Under federal law now in effect pursuant to an amendment to the Atomic Energy Act enacted into law on August 28, 1988 (the "Price Anderson Act"), the public liability that may arise from a single nuclear incident is limited to the maximum amount of "financial protection" required of the licensees of a nuclear generating facility. "Financial protection" required is determined by reference to (x) the amount of private liability insurance licensees are required to maintain by the NRC, (y) the maximum premium that licensees may be assessed under an industry-wide retrospective rating program prescribed by the Atomic Energy Act and (z) the number of facilities licensed by the NRC. The Price Anderson Act provides for "financial protection," and thus a public liability limit in respect of a single nuclear incident, in an amount equal to approximately $12.6 billion (effective January 1, 2010, and based on 104 licensed nuclear reactors) for all persons who may be liable in respect thereof, subject to further increases to reflect the effect of (i) inflation, (ii)

the licensing for operation of additional nuclear reactors, and (iii) any increases in the amount of commercial liability insurance required to be maintained by the NRC. Public liability claims from an insured nuclear incident that exceed $375 million (currently available through commercial insurers) would be covered by a required pro-rata assessment under the retrospective rating program equal to $111.9 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of $17.5 million per reactor). Under these provisions, the City's share (based on its 1.4079% ownership interest in CR-3) of the maximum potential assessment under the retrospective rating program would be approximately $1,575,440 per incident but would be limited to approximately $246,382 per year for each such incident (in each case assuming that the other CR-3 participants were to contribute their respective shares of such assessments). In addition, if the funds provided by the retrospective rating program and primary insurance were to be insufficient to satisfy public liability claims and legal costs arising from a single nuclear incident, the licensees of each nuclear reactor would be subject to a surcharge of up to 5% of the retrospective premium then applicable to satisfy such claims and costs. Under this eventuality, the City's additional share would be limited to approximately $11,000. Retrospective premiums are payable by the CR-3 participants irrespective of the location of the nuclear incident and the number of nuclear incidents that occur in any year (albeit subject to the $17,500,000 annual limit for each incident). According to information provided by PEF as principal owner of CR-3, the City's ownership interest in CR-3 is covered by various insurance policies maintained by PEF. In accordance with the provisions of the System's participation agreement with PEF, PEF is required to name the System as an additional named insured on all insurance policies relating to CR-3. Under this arrangement, the System pays insurance premiums and maintains liability coverage based on its 1.4079% interest in CR-3. Nuclear Electric Insurance, LTD. ("NEIL") provides primary coverage for property damage at CR-3 in an amount equal to $500 million. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance in the amount of $1.750 billion, resulting in total nuclear decontamination, premature decommissioning and property damage coverage of $2.250 billion.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. PEF is insured thereunder, following a twelve-week deductible period, for 52 weeks in the amount of $4.5 million per week at the CR-3 plant. An additional 71 weeks of coverage is provided at 80% of the above weekly amount. For the current policy period, PEF is subject to retrospective premium assessments of up to approximately $7.4 million with respect to the primary coverage, $9.9 million with respect to the decontamination, decommissioning and excess property coverage, and $6.0 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, PEF's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. PEF is responsible to the extent losses may exceed limits of the coverage described above. The Florida municipal CR-3 participants, including the System, are not covered under this replacement power policy. The participants do have a capacity factor guarantee entered into as a result of the last extended outage of CR-3. The capacity factor guarantee covers the period January 1, 2002 through December 21, 2013 and provides that PEF will provide alternate energy or pay the participants for their replacement power when capacity delivered from CR-3 is less than 87.5% over any two-year evaluation period.

Under the NEIL policies, if there were multiple terrorism losses occurring within one year after the first loss from terrorism, NEIL would make available one industry aggregate limit of $3.2 billion, along with any amount it recovers from reinsurance, government indemnity or other sources up to the limit for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. For nuclear liability claims arising out of terrorist acts, the primary level through commercial insurers is now subject to an industry aggregate limit of $375 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding $375 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

TAX MATTERS

General

The following is a summary of certain of the United States income tax consequences of the ownership of the 2010 Series A, B and C Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Internal Revenue Code of 1986 (the "Code"), as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2010 Series A, B and C Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the 2010 Series A, B and C Bonds that are "U.S. holders" (as defined below), deals only with 2010 Series A, B and C Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold 2010 Series A, B or C Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, except as described below, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of 2010 Series A, B or C Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a Beneficial Owner of a 2010 Series A, B or C Bond. A "non U.S. investor" is a holder (or Beneficial Owner) of a 2010 Series A, B or C Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Taxable 2010 Series A and B Bonds

Opinion of Bond Counsel

In the opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City ("Bond Counsel"), interest on the Taxable 2010 Series A and B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. 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 2010 Series A and B Bonds. The proposed form of opinion of Bond Counsel with respect to the Taxable 2010 Series A and B Bonds is contained in APPENDIX F hereto.

Tax Status of the Taxable 2010 Series A and B Bonds

The Taxable 2010 Series A and B Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the Taxable 2010 Series A or B Bonds that allocate a basis in the Taxable 2010 Series A or B Bonds that is greater than the principal amount of the Taxable 2010 Series A or B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Taxable 2010 Series A or B Bonds for an amount that is less than the principal amount of such Taxable 2010 Series A or B Bonds, and such difference is not considered to be *de minimis*, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Taxable 2010 Series A or B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Taxable 2010 Series A and B Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Taxable 2010 Series A and B Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

Original Issue Discount

In the event that the Taxable 2010 Series A or B Bonds of any maturity (and, if applicable, each interest rate within such maturity) are issued with original issue discount ("OID") a holder of a Taxable 2010 Series A or B Bond of such maturity (and, if applicable, interest rate within such maturity) will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Taxable 2010 Series A or B Bond. Thus, the holders of such Taxable 2010 Series A and B Bonds will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such bonds with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. A holder of a Taxable 2010 Series A or B Bond that purchases such Taxable 2010 Series A or B Bond for less than its adjusted issue price (generally its accreted value) will have purchased such Taxable 2010 Series A or B Bond with market discount. If such difference is not considered to be de minimis, then such discount ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of such Taxable 2010 Series A or B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A holder of a Taxable 2010 Series A or B Bond that has an allocated basis in the Taxable 2010 Series A or B Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the Taxable 2010 Series A or B Bond with acquisition premium. The amount of OID that such holder of a Taxable 2010 Series A or B Bond must include in gross income with respect to such Taxable 2010 Series A or B Bond will be reduced in the proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Taxable 2010 Series A or B Bond. A holder of a Taxable 2010 Series A or B Bond may have a basis in its pro rata share of the Taxable 2010 Series A or B Bond that is greater than the principal amount of such Taxable 2010 Series A or B Bond. Holders of Taxable 2010 Series A or B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such Taxable 2010 Series A or B Bonds under section 171 of the Code.

Sale and Exchange of Taxable 2010 Series A and B Bonds

Upon a sale or exchange of a Taxable 2010 Series A or B Bond, a holder generally will recognize gain or loss on the Taxable 2010 Series A or B Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such Taxable 2010 Series A or B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Taxable 2010 Series A or B Bond not yet taken into income will be ordinary income). The adjusted basis of the holder in a Taxable 2010 Series A or B Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the Taxable 2010 Series A or B Bond. In general, if the Taxable 2010 Series A or B Bond is held for longer than one year, any gain or loss would be long-term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance of Taxable 2010 Series A and B Bonds

Defeasance of any Taxable 2010 Series A or B Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Taxable 2010 Series A or B Bond.

Foreign Investors

Distributions on the Taxable 2010 Series A and B Bonds to a non-U.S. holder that has no connection with the United States other than holding its Taxable 2010 Series A or B Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

Circular 230

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Taxable 2010 Series A and B Bonds.

2010 Series C Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2010 Series C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the 2010 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion as to whether some or all interest on the 2010 Series C Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. The proposed form of opinion of Bond Counsel with respect to the 2010 Series C Bonds is contained in APPENDIX G hereto.

To the extent the issue price of any maturity of the 2010 Series C Bonds is less than the amount to be paid at maturity of such 2010 Series C Bonds (excluding amounts stated to be interest and payable at least annually over the term of such bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2010 Series C Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2010 Series C Bonds is the first price at which a substantial amount of such maturity (or, if applicable, interest rate within such maturity) of the 2010 Series C Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2010 Series C Bonds accrues daily over the term to maturity of such 2010 Series C Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2010 Series C Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2010 Series C Bonds. Beneficial Owners of the 2010 Series C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2010 Series C Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2010 Series C Bonds in the original offering to the public at the first price at which a substantial amount of such 2010 Series C Bonds is sold to the public.

2010 Series C Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal

income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2010 Series C Bonds. The City has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2010 Series C Bonds will not be included in federal gross income. (See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2010 Series C Bonds" in APPENDIX D hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2010 Series C Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2010 Series C Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2010 Series C Bonds may adversely affect the value of, or the tax status of interest on, the 2010 Series C Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2010 Series C Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2010 Series C Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2010 Series C Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2010 Series C Bonds. Prospective purchasers of the 2010 Series C Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2010 Series C Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2010 Series C Bonds ends with the issuance of the 2010 Series C Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2010 Series C Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2010 Series C Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the

market price for, or the marketability of, the 2010 Series C Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

RATINGS

The 2010 Series A, B and C Bonds have received ratings of "__," "__" and "__" from S&P, Moody's and Fitch, respectively.

An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating and outlook on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings or outlooks will be in effect for any given period of time or that such ratings or outlooks will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings or outlooks may have an adverse effect on the market price of the 2010 Series A, B and C Bonds.

LITIGATION

There is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) restraining or enjoining the issuance, sale or delivery of the 2010 Series A, B and C Bonds, or in any way questioning or affecting (i) the proceedings under which the 2010 Series A, B and C Bonds are to be issued, (ii) the validity of any provision of the 2010 Series A, B and C Bonds or the Resolution, (iii) the pledge by the City of the Trust Estate under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

The System was the plaintiff in numerous actions against the Alachua County Property Appraiser and others challenging the constitutionality under State law of the assessment of ad valorem taxes against telecommunications assets of the System, including the assets used to provide Internet service, the fiber optic system and radio towers used for both governmental purposes and for leasing space to cellular communications providers. The litigation also involved the assessment against certain lands that are part of the Deerhaven Station property. During the pendency of the litigation, the System, in accordance with Florida law, declined to pay the disputed taxes for tax years 2003 through 2006. On November 26, 2007, the Florida Supreme Court declined to take jurisdiction of the case, thereby leaving in place the taxation of the towers (and certain real property at the Deerhaven Station) while remanding the issues of taxation of the Internet service and fiber optic assets to the trial court. Following additional proceedings in the trial court the System prevailed on the issues of taxation of both the Internet service and fiber optic assets. No appeal of the outcome was taken by the adverse parties. All taxes and interest accruing during the pendency of the case were paid. Management believes that future payment of the taxes upon the Deerhaven Station property and the towers will not materially affect the financial condition of the System.

In addition to the action discussed in the preceding paragraph, the System is party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the System. Management does not believe that, individually or in the aggregate, these cases will materially adversely affect the Net Revenues of the System or materially adversely impair the business, operations, or financial condition of the System.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the principal of and interest on the Government Obligations and the moneys to be on deposit in the Escrow Account to provide for the

payment when due of the interest on and the redemption price of the Refunded 2003 Bonds will be verified by Dufresne & Associates, CPA, PA. Such verifications will be based upon certain public information supplied to Dufresne & Associates, CPA, PA by or on behalf of the City.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2010 Series A, B and C Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Complete copies of the proposed forms of Bond Counsel opinions are contained in APPENDICES F and G hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., Gainesville, Florida, City Attorney. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Counsel to the Underwriters.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2009 and 2008 and for the years then ended, included in APPENDIX B hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2010 Series A, B and C Bonds from the City at an aggregate discount of $_____ from the initial offering prices thereof. The 2010 Series A, B and C Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters are Goldman, Sachs & Co., Barclays Capital Inc., Jefferies & Company, Inc. and J.P. Morgan Securities LLC.

J.P. Morgan Securities LLC, one of the Underwriters of the 2010 Series A, B and C Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2010 Series A, B and C Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase 2010 Series A, B and C Bonds from J.P. Morgan Securities LLC at the original issue price less a negotiated portion of the selling concession applicable to any 2010 Series A, B and C Bonds that such firm sells.

FLORIDA SECURITIES LAWS

Florida law provides that securities issued by any state or any political subdivision thereof are subject to registration with the Florida Department of Banking and Finance, Division of Securities and Investor Protection, if the issuer is in default or has been in default at any time after December 31, 1975 as to principal and interest with respect to any obligation issued by such issuer, unless the offering circular contains full and fair disclosure concerning the circumstances of such default and financial statements of the issuer for the last two fiscal years. However, the issuer is not required to make such disclosures or include such financial statements if it in good faith believes that such information would not be considered material by a reasonable investor. There has been a default with respect to non-recourse industrial development bonds issued by the City on behalf of a private entity, by reason of nonpayment of debt service by the private entity. Such default is unrelated to the credit of the City or the System; therefore, the City does not consider that disclosures relating to such default are material to prospective purchasers of the 2010 Series A, B and C Bonds. In addition, the 2010 Series A, B and C Bonds are not secured by the full faith and credit and taxing power of the City; therefore, the City does not consider that disclosure of its financial statements (other than those with respect to the System) would be appropriate or material to prospective purchasers of the 2010 Series A, B and C Bonds.

MISCELLANEOUS

The references herein to the Resolution do not purport to be complete representations of the contents of the Resolution, and reference is made to the Resolution for a full and complete statement of its provisions. Copies of the Resolution are on file with the City and may be obtained upon request. Whether or not expressly stated, any statements involving matters of opinion are intended as opinions and not as representations of fact.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF GAINESVILLE, FLORIDA

By_____
General Manager for Utilities