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

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

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

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

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

Existing Generating Facilities

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

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

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

Deerhaven 2 maintained an average operating availability of 83.96% (82.39% in the fiscal year ended September 30, 2007). Operating availability represents the percentage of time the unit was available to serve load at any output level. Deerhaven 2 will require additional emission control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and the Clean Air Mercury Rule ("CAMR") the cost of which is included in the System's capital improvement program. This equipment will consist of selective catalytic reduction ("SCR") to reduce nitrogen oxides ("NO_x"), also scheduled to come on-line May 1, 2009, and a dry scrubber and baghouse air filter to control sulfur dioxide ("SO_2") and mercury, scheduled to come on-line by May 1, 2009. There are also three quick start combustion turbines on the Deerhaven site. Two combustion turbines are rated at 18 MW each; with a third combustion turbine rated with a net summer capability of 75 MW and equipped with dry low NO_x combustors and water injection for NO_x control. Each of these turbines is capable of firing on natural gas or distillate fuel oil. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the 1990 Amendments to the Clean Air Act (the "1990 Amendments"), CAIR and CAMR and their impact on the Deerhaven Station.

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

Fuel Supply

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

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

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

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

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

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

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

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

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

Transmission System, Interconnections and Interchange Agreements

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

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

Electrical Distribution

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

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

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

Capital Improvement Program

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

Electric Capital Improvement Program

	Fiscal Years ending September 30,						
	2008	2009	2010	2011	2012	2013	Total[1]
	(dollars in thousands)						
Generation and Control	$ 96,923	$ 53,805	$14,198	$ 9,664	$ 4,837	$ 2,248	$181,675
Transmission and Distribution	10,496	10,789	11,448	13,583	14,307	13,311	73,934
Miscellaneous and Contingency	47,51[illegible]	33,21[illegible]	22,312	8,100	7,2[illegible]	8,856	127,256
Total	$154,931	$97,812	$47,958	$31,347	$26,402	$24,415	$382,865

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

Loads and Resources

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

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

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

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

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

Mutual Aid Agreement For Extended Generation Outages

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

Future Power Supply

General

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

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

The Planning Process

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

Market Involvement

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

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

Opportunity Development

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

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

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

Biomass Resource Development

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

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

Carbon Management

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

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

THE NATURAL GAS SYSTEM

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

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

Service Area

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

Customers

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

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

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

Natural Gas Supply

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

Natural Gas Distribution

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

Manufactured Gas Plant

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

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

Capital Improvement Program

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

Gas Capital Improvement Program

	Fiscal Years ending September 30,						
	2008	2009	2010	2011	2012	2013	Total
	(dollars in thousands)						
Distribution Mains	$1,611	$ 1,246	$ 1,325	$1,687	$1,763	$1,838	$ 9,470
Meters, Services and Regulators	1,648	1,171	1,240	1,581	1,576	1,643	8,859
Acquisition and Clean-up	-	5,871	6,204	50	53	55	12,233
Miscellaneous and Contingency	2,028	3,38	4,148	6	6	71	11,653
Total	$5,287	$11,669	$12,917	$4,002	$4,091	$4,249	$42,215

THE WATER SYSTEM

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

Service Area

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

Customers

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

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

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

Water Treatment and Supply

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

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

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

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

Transmission and Distribution

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

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

Capital Improvement Program

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

Water Capital Improvement Program

	Fiscal Years ending September 30,						
	2008	2009	2010	2011	2012	2013	Total
	(dollars in thousands)						
Plant Improvements	$ 4,926	$ 6,286	$3,679	$3,275	$3,482	$2,745	$24,393
Transmission and Distribution	2,682	2,179	2,837	3,653	3,540	4,749	19,640
Miscellaneous and Contingency	2,49	3,60	3,2				12,324
Total	$10,106	$12,072	$9,80	$7,896	$7,99	$8,478	$56,357

THE WASTEWATER SYSTEM

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

Service Area

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

Customers

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

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

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

Treatment

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

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

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

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

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

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

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

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

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

Wastewater Collection

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

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

Capital Improvement Program

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

Wastewater Capital Improvement Program

	Fiscal Years ending September 30,						
	2008	2009	2010	2011	2012	2013	Total
	(dollars in thousands)						
Plant Improvements	$ 4,836	$ 4,388	$ 4,315	$1,732	$ 1,535	$ 2,935	$19,741
Reclaimed Water	8,948	6,323	7,498	5,513	7,946	3,057	39,285
Collection System	1,711	953	1,389	857	895	3,791	9,596
Miscellaneous and Contingency	3,31	3,317	2,81	1,026	1,027	1,04	12,543
Total	$18,812	$14,981	$16,012	$9,128	$11,403	$10,829	$81,165

THE TELECOMMUNICATIONS SYSTEM

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

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

Service Area

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

Services Provided

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

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

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

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

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

Customers

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

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

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

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

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

Description of Facilities

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

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

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

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

Capital Improvement Program

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

GRUCom Capital Improvement Program

	Fiscal Years ending September 30,						
	2008	2009	2010	2011	2012	2013	Total
	(dollars in thousands)						
Fiber Optic Expansion	$6,926	$3,768	$2,917	$4,002	$5,327	$5,616	$28,556
General Plant	261	199	173	257	172	172	1,234
Miscellaneous and Contingency	1,64(	1,46:	3				3,65
Total	$8,827	$5,430	$3,397	$4,340	$5,578	$5,869	$33,441

RATES

General

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

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

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

Electric System

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

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

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

(1) Overall system rate increase of 3%. Customer Charge for all classes increased by 5%. The Residential and General Service Non-Demand Classes have a two tier rate structure. For each class the second rate tier was increased with no increase to the first tier. General Service demand and Large Power Classes demand charges were increased while energy charges remained unchanged.

(2) Overall system rate increase of 13.5%. The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per kWh for all customer classes and a third residential tier was added. Breaks in residential tiers changed to 0-250, 251-750 and above 750 kWh usage, with higher rates in the second and third tiers to promote conservation. Similar increases were made to commercial kWh and kW charges.

(3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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

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

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

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

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

Rates and Charges for Electric Service

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

Residential Standard Rate

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

Residential Optional Time-of-Use Rate

Customer charge, per month $9.36

Energy charge:
All energy used on-peak, per kWh $0.11
All energy used off-peak, per kWh $0.0325

Peak periods shall be as follows:
Summer peaks: May 15 through October 15, 12:00 noon through 9:00 p.m., weekends and holidays included.
Winter peaks: January 1 through February 28, 7:00 a.m. through 11:00 a.m. and 6:00 p.m. through 10:00 p.m., weekends and January 1 are excluded.
Off-peak periods shall be all periods not included in peak periods

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

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

Customer charge, per month $16.00

First 1,500 kWh per month, Total charge per kWh $0.062

All kWh per month over 1,500, Total charge per kWh..... $0.080

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

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

Customer charge, per month $33.00

Total Demand charge, per kW $9.00

Total Energy charge, per kWh $0.029

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

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

Customer charge, per month $265.00

Total Demand charge, per kW ..... $ 9.00

Total Energy charge, per kWh ..... $ 0.027

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

Comparison with Other Utilities

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

Comparison of Monthly Electric Bills (1)

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

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

(1) Rates for GRU are based on the monthly bill for October 2007 and for the other utilities for April 2007, ranked by residential bills. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.

(2) The System's bills in this Table assume participation in the Business Partners Program. See "RATES—Electric System" herein.

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Natural Gas System

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

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

Rate Changes	Base Rate Percent Increase
Historical	
October 1, 2003	2.00%[2]
October 1, 2004	None
October 1, 2005	None
October 1, 2006	None
October 1, 2007	11.00
Projected[3]	
October 1, 2008	9.00%
October 1, 2009	6.50
October 1, 2010	5.50
October 1, 2011	5.00
October 1, 2012	4.00

(1) A separate charge for remediation of the MGP site was implemented in 2002. For additional information on the MGP site, see "THE NATURAL GAS SYSTEM—Manufactured Gas Plant" herein.

(2) In addition to the base rate increase indicated in the table, the rate for the separate charge for remediation of the MGP site was increased from 0.0207 to 0.0321.

(3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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

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Rates and Charges for Natural Gas Service

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

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

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

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Comparison with Other Utilities

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

Comparison of Monthly Natural Gas Bills[1]

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

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

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

(2) Service provided by People's Gas.

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Water and Wastewater System

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

Water System Rate Changes

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

(1) In October 2004, inverted block rate structure applied to residential sales on year-round basis, no longer only during April-October. University of Florida charges became cost of service study based. On-campus charges increased by 15% and off-campus charges increased by 12%.

(2) In October 2005, University of Florida on-campus charges increased by 11% and off-campus charges increased by 8.41%.

(3) The customer charge for all customer classes was increased to reflect the cost of service. The remaining revenue requirement was obtained by increasing the charge per 1,000 gallons in all customer classes and all three residential tiers, with a greater increase to the second and third tiers to promote conservation. The commercial non-tiered rate was increased to be equal to the second tier of the residential rate.

(4) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

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

Wastewater System Rate Changes

Rate Changes[1]	Percentage Rate Increase
Historical	
October 1, 2003	3.00%
October 1, 2004	5.25
October 1, 2005	15.00
October 1, 2006	25.00[2]
October 1, 2007	17.00
Projected[3]	
October 1, 2008	11.00%
October 1, 2009	7.00
October 1, 2010	3.00
October 1, 2011	1.00
October 1, 2012	1.00

(1) The rate changes only affect the customer billing charge and the per thousand gallon rate charged customers, unless stated otherwise.

(2) For fiscal year 2007, revenue requirements for the Wastewater System increased by 25%. The customer charge for all customer classes was increased to reflect the cost of service and all customers, both residential and commercial, pay the same rate per 1,000 gallons billed.

(3) All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

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

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

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

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 current monthly charges for water and wastewater service effective October 1, 2007.

Current Monthly Charges For Water and Wastewater Services

Water Rates:	
Residential	
Customer Billing Charge	$5.35 per month
Consumption Rate:	
First 9,000 gallons	$1.56 per 1,000 gallons
Over 9,000 to less than 25,000 gallons	$2.82 per 1,000 gallons
25,000 or more gallons	$4.93 per 1,000 gallons
Commercial	
Customer Billing Charge	$5.35 per month
Consumption Rate	$2.82 per 1,000 gallons
University of Florida	
Customer Billing Charge	$5.35 per month
Consumption Rate:	
On-campus facilities	$1.13 per 1,000 gallons
Off-campus facilities	$1.30 per 1,000 gallons
City of Alachua[1]	
Customer Billing Charge	$5.35 per month
Consumption Rate	$1.33 per 1,000 gallons

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Wastewater Rates:	
Residential and Commercial	
Customer Billing Charge	$4.00 per month
All Usage[2]	$4.63 per 1,000 gallons
Tacachale	
Fixed Charge[3]	$4,929.63 per month
All Usage	$1.36 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.

(3) The wastewater rates are calculated to compensate for specific customer-borne capital costs.

Comparison with Other Cities

Average water and wastewater charges in effect in April 2007 are compared to those for 13 other Florida cities in the table below.

Comparison of Monthly Residential Water and Wastewater Bills[1]

City	Water	Wastewater	Total
Tampa	$10.01	$31.44	$41.45
Lakeland	16.47	27.79	44.26
Orlando	12.71	31.69	44.40
Gainesville	**14.80**	**31.10**	**45.90**
Tallahassee[2] [3]	17.67	31.23	48.90
Jacksonville	14.85	34.97	49.82
Orange County	13.73	36.15	49.88
Pensacola (ECUA)	18.67	32.60	51.27
Ocala[3]	15.94	39.16	55.10
Daytona Beach	21.00	36.19	57.19
Winter Haven[2]	23.29	39.20	62.49
Ft. Pierce	27.72	41.23	68.95
St. Augustine	30.37	40.09	70.46
Lake City	30.16	40.40	70.56

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 in April 2007; 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, 2007 transmission and distribution/collection system connection charges for individual lots are $340 to connect to the water system and $501 to connect to the wastewater system. The water meter installation charge is $413 for a typical single family dwelling (requiring 5/8 inch meter). The current water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are $1,288 for new water service and the wastewater flow-based connection charges are $1,666 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are $2,954.

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SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years ended September 30, 2005 through September 30, 2007 and for the three-month periods ended December 31, 2006 and December 31, 2007, and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ended September 30, 2005 through September 30, 2007 is derived from the audited financial statements of the City for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto. The audited financial statements for the fiscal years ended September 30, 2007 and 2006 are included as APPENDIX A to this Official Statement.

	Fiscal Years Ended September 30,		
	2005	2006	2007
(dollars in thousands)			
Revenues:			
Electric	$178,930	$210,428	$209,656
Gas	27,210	31,269	29,328
Water	17,190	19,467	23,644
Wastewater	22,142	23,439	27,380
GRUCom	8,640	7,819	7,739
Total Revenues	$254,112	$292,422	$297,747
Operation and Maintenance Expenses:			
Electric	$132,258	$162,604	$152,931
Gas	21,377	26,690	24,287
Water	9,088	9,806	10,706
Wastewater	10,387	11,305	11,134
GRUCom	4,509	4,745	4,608
Total Operation and Maintenance Expenses	$177,619	$215,150	$203,666
Net Revenues:			
Electric	$46,672	$47,824	$56,725
Gas	5,833	4,579	5,041
Water	8,102	9,661	12,938
Wastewater	11,755	12,134	16,246
GRUCom	4,131	3,074	3,131
Total Net Revenues	$76,493	$77,272	$94,081
Aggregate Debt Service on Bonds	$24,877	$34,108	$40,545
Debt Service Coverage Ratio for Bonds	3.07	2.27	2.32
Debt Service on Subordinated Indebtedness[(1)]	$10,599	$6,943	$5,397
Total Debt Service on Bonds and Subordinated Indebtedness	$35,476	$41,051	$45,942
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness	2.16	1.88	2.05

(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. Includes principal payments on commercial paper notes in the amount of approximately $9.0 million for the fiscal year ended September 30, 2005.

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, rates were not increased during the fiscal years ended September 30, 2004 through September 30, 2005. However, in the fiscal year ended September 30, 2006, electric system rates were increased 3.0%. Electric system base rates were also increased by 13.5% for the fiscal year ended September 30, 2007 and 11% for the fiscal year ending September 30, 2008. The rate increases for the year ended September 30, 2007 and the year ending September 30, 2008 can largely be attributed to additional capital needs, and increased maintenance costs on aging equipment.

Energy sales (in MWh) to retail and wholesale customers (native load) increased 3.2% from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased 1% from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. The number of electric customers increased at an average annual rate of 1.64% between the fiscal years ended September 30, 2004 and September 30, 2007.

Native load fuel costs increased by approximately $26.1 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased by approximately $11.7 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. The primary reason for the increase from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 was the increased cost of natural gas used as fuel for the System's generating facilities. However, the cost of natural gas used as fuel has decreased in the current year, accounting for the decrease in cost from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007.

Net revenues from electric interchange sales increased by approximately $0.3 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and increased by approximately $1 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. The growth in net revenues from electric interchange sales is primarily the result of decrease in the System's native load, which results in more capacity being available for non-firm economy sales and, accordingly, in higher sales volumes and sales margins.

In the fiscal year ended September 30, 2004, the weather resulted in a decrease in the System's cash reserves. During that year, two major hurricanes caused damage to certain of the System's operating facilities totaling approximately $7.4 million, with the vast majority of cost affecting the electric system. Applications for reimbursement from the Federal Emergency Management Agency were made and grant funds of approximately $7.1 million have been received so far. These moneys have been used to replenish the System's cash reserves.

Natural gas system retail sales are largely dependent on winter weather. For the fiscal year ended September 30, 2006, sales decreased to 22.0 million therms from the previous year. The number of gas customers increased at an average annual rate of approximately 1.80% between the fiscal years ended September 30, 2006 and September 30, 2007. Natural gas costs increased by approximately $5.0 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and decreased by approximately $3.4 million for the fiscal year ended September 30, 2007 as compared to the prior

fiscal year. Since these costs are passed along to customers as part of a purchased gas adjustment charge each month, the increases in costs were offset by corresponding increases in 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 total cost to be recovered is approximately $12 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. In the fiscal year ended September 30, 2004, gas system rates were increased 2.0% and, in addition, the rate for the per therm charge with respect to the MGP site was increased from 0.0207 to 0.0321. No gas system rate increases were required in the fiscal years ended September 30, 2003, 2005, 2006, or 2007. However, due to increasing maintenance and capital needs, the gas system rates were increased 11% for the fiscal year ended September 30, 2008.

Water system sales are dependent on seasonal rainfall. Revenues from water sales increased by approximately $4.2 million from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and increased by approximately $5 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. While the number of water customers increased at an average annual rate of 2.81% between the fiscal years ended September 30, 2004 and September 30, 2006, the increase slowed to approximately 2% between the fiscal years ended September 30, 2006 and September 30, 2007. The water revenue increases for the fiscal year ended September 30, 2006 to the fiscal year ending September 30, 2007, were largely the result of rate increases and decreased rainfall levels. Although revenues received from water system sales have shown a fairly steady increase in these two comparative periods, there was a slight decrease in revenues for the fiscal year ended September 30, 2005. This slight decrease in revenues, accompanied by an increase in operating costs, required a slightly higher than expected withdrawal from the Rate Stabilization Fund in the fiscal year ended September 30, 2005. In accordance with projections, revenues increased significantly for the fiscal year ended September 30, 2006, allowing for a contribution to the Rate Stabilization Fund of approximately $1 million. For the fiscal year ended September 30, 2007, the Water System contributed $1.3 million to the Rate Stabilization Fund. Water system rates were increased by 15.0% in the fiscal year ended September 30, 2006, by 25.0% in the fiscal year ending September 30, 2007, and by 13.0% in the fiscal year ended September 30, 2008.

Wastewater system billings generally track water system sales. Wastewater billings increased 17.5% from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006 and increased 24.8% from fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. Wastewater billings increased in these periods due in large part to rate increases implemented for those fiscal years. The number of wastewater customers increased at an average annual rate of 2.99% between the fiscal years ended September 30, 2004 and September 30, 2006 and increased 1.78% between the fiscal years ended September 30, 2006 and September 30, 2007. Slightly higher than anticipated withdrawals from the Rate Stabilization Fund were required in the fiscal year ended September 30, 2005 in order to offset higher than expected operating costs. However, as with the water system, rate increases for the fiscal year ended September 30, 2006 provided significantly higher revenues, allowing for a Rate Stabilization Fund contribution of $1.5 million for the fiscal year ended September 30, 2006. For the fiscal year ended September 30, 2007, the Wastewater System contributed approximately $.6 million to the Rate Stabilization Fund. Wastewater rates were increased by 5.25% in the fiscal year ended September 30, 2005, by 15% in the fiscal year ended September 30, 2006, by 25.0% in the fiscal year ending September 30, 2007, and by 17% in the fiscal year ended September 30, 2008.

GRUCom continued to expand its services during the period from the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2007. From the fiscal year ended September 30, 2004 to the fiscal year ended September 30, 2006, GRUCom sales increased by approximately 8%. Between the fiscal years ended September 30, 2006 and September 30, 2007, GRUCom revenues grew by

6.3%. For the fiscal year ended September 30, 2006, GRUCom contributed approximately $1 million to the Rate Stabilization Fund, which is a significant increase over the prior year. For the fiscal year ended September 30, 2007, GRUCom contributed $1.7 million to the Rate Stabilization Fund.

The Debt Service Coverage Ratio for Bonds decreased from 3.07 for the fiscal year ended September 30, 2005, to 2.27 for the fiscal year ended September 30, 2006, but increased to 2.32 for the fiscal year ended September 30, 2007. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness decreased from 2.16 to 1.88 from the fiscal year ended September 30, 2005 to the fiscal year ended September 30, 2006, but increased to 2.04 for the fiscal year ended September 30, 2007. The decreases in the Debt Service Coverage Ratios between the fiscal years ended September 30, 2005 and September 30, 2006 were the result of an increase in Total Debt Service of 15.7% and only a 1% increase in Net Revenues between those same periods. The Debt Service Coverage Ratio increases between the fiscal years ended September 30, 2006 and September 30, 2007 are attributable to a Net Revenue increase of 21.7% and an increase of only 12% in Total Debt Service between those same periods.

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,
	2005	2006	2007	2007[1]
Electric	$(135)	$(2,048)	$(4,372)	$41,796
Gas	761	(466)	1,160	3,650
Water	1,535	(878)	(1,274)	566
Wastewater	1,817	(1,158)	(581)	2,757
GRUCom	(5)	(1,036)	(1,692)	4,059
Total	$3,973	$(5,586)	$(6,759)	$52,828

(1) Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2006.

See also "Management's Discussion and Analysis" in APPENDIX A 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 A attached hereto.

Transfers to General Fund

For the electric system, until 1999, the transfer to the General Fund was made in an amount equal to the amount of current year's electric surcharge plus 14.65% of the difference between the second preceding year's gross revenues and the sum of the second preceding year's surcharges, fuel expenses and certain fuel-related debt service.

In summer of 2000, the City Commission adopted a new formula to determine the amount of System revenues to be transferred from the electric system to the General Fund of the City. 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%.

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.

In August 2005, the City Commission instructed Management of the System to prepare to begin 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, 2007 was set at $324,780.

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 2008 Series B 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, 2005 through 2007 (as determined in accordance with the formulas described above) were as follows:

Fiscal Years ended September 30,	Transfers to General Fund	
	Amount	% Increase
2005	$27,279,644	1.0
2006	$29,431,037	7.8
2007	$30,397,527	3.3

Investment Policies

The System's investment policy provides for investment of its funds to obtain a maximum yield consistent with preservation of capital, liquidity of the portfolio, Resolution requirements, and 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 C 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 Board of Administration of the State of Florida).

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 Partners, Inc., 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 ("APPA"), the Florida Municipal Electric Association, and FMPA. Furthermore, the System has teamed up with three other Florida utilities (Kissimmee Utilities Authority, JEA, and the City of Tallahassee) to form the Florida Municipal Group ("FMG") to address common issues and concerns related to the development of regional transmission organizations in the southeastern United States pursuant to FERC Order No. 2000. 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. It should also be noted that the System itself also took advantage of gas deregulation and started procuring its gas in the competitive gas supply market directly from producers for its power system as well as its gas distribution system, first with its own staff, then through the formation of FGU, followed by a cooperative agreement with an independent gas marketer, and now, through TEA.

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.

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 as a relative newcomer in the fully deregulated and competitive telecommunications environment. Management of the System 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 Ethernet and ATM, 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 year, 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 (see "FACTORS AFFECTING THE UTILITY INDUSTRY – 2005 Florida Communications Legislation" herein).

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. The first of these being constructed under a contract with the University of Florida's Shands Teaching Hospital to provide chilled water, steam, and emergency generation from a facility located on a portion of a new medical complex campus being developed. The medical campus will include 3,000,000 square feet of facilities at buildout. Services will be provided on the basis of a "cost plus" open book, long term (50 year) contract. The System also has MOU's to provide similar services to two other large, multi-story mixed-use buildings being developed in Gainesville. The System's strategy does not depend on extensive distribution systems, instead each chilled water and generation facility is located on the premise of the development.

Currently, there is no initiative and little indication of interest in pursuing retail electric deregulation either in Florida or nationwide. Management of the System 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 will require many of the same goals and targets required 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.

Federal Excise Tax in LILO/SILO Transaction

On December 10, 1998, the City entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms

of the transaction, the City entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, the City has an option to buy out the remainder of the lease for a fixed purchase option amount.

Under the terms of the transaction, the city continues to own, operate, maintain and staff the facilities.

The proceeds received by the City from this transaction were approximately $249 million. From these proceeds, the System deposited $142 million as a payment undertaking agreement and a second deposit of $72 million in the form of a collateralized Guaranteed Investment Contract ("GIC"), both with an AAA-rated insurance company. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by the System.

The net benefit of this transaction, after payment of transaction expenses, was approximately $35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the "2005 Act"). Among other provisions, the 2005 Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). Based on regulations that were recently released by the IRS, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the newness of the tax and the interpretive questions that remain.

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. Restructuring of wholesale markets and the formation of independent transmission systems in Florida has slowed considerably. 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 has culminated in the passage of SB 1322. Although the System has special status as a grandfathered entity under this legislation, there are some implications should GRUCom seek to expand into additional lines of service that will be discussed in this section.

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 waters or groundwaters; 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 global warming and the effects of greenhouse gases on the environment likely have increased the possibility that regulations governing carbon emissions will be adopted at the federal, state and/or local levels. Management of the System 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 System's Deerhaven and JRK Stations are subject to CAIR and CAMR which were promulgated in 2005. These units are also subject to some or all of the requirements of the 1990 Amendments to the Clean Air Act.

CAIR and CAMR are two-phase cap and trade programs under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels. Management of the System has decided that the best long-term compliance option for the System is the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. These controls will consist of Selective Catalytic Reduction, Flue Gas Desulfurization and a Fabric Filter. Significant capital and operating and maintenance expenditures will be required prior to 2009 and 2010, the CAIR compliance dates for Phase I of the NO_X and SO_2 emission caps, respectively. It is expected that compliance with the Phase I, and possibly Phase II, emission caps for mercury will be achieved through the co-benefits of installing the SO_2 and NO_X emission control systems. An Engineer, Procure, and Construct ("EPC") Contractor has been competitively selected and a contract has been executed, and the needed facilities are currently under construction.

The electric utility industry will also be required to comply with pending regulations pertaining to regional haze and potentially greenhouse gases. The nature and extent of such further regulations on the System's operation cannot yet be fully predicted but may require increased capital and operation and maintenance expenditures (see "THE ELECTRIC SYSTEM—Future Power Supply" herein).

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 aboveground storage tank systems. There are no underground storage tanks remaining in the electric system. The System is insured for the requisite amounts. In 2001, five residual fuel oil tanks at the JRK Station were retired and removed due to the decreased utilization of this fuel. The System rehabilitated and placed two distillate fuel storage tanks in service in 2003. During 2006, the existing Deerhaven south bulk tank will be

converted from distillate to residual fuel oil and an existing out-of-service tank was retrofitted and put into service for distillate storage.

Nuclear Waste Disposal Regulation

On January 7, 1983, the Nuclear Waste Policy Act of 1982 became effective. In general, that 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

The Comprehensive Environmental Response, Compensation and Liability Act, commonly known as "Superfund," as well as parallel State statutes, provide for strict and joint and several liability for necessary costs which may be incurred by the United States, a state, or any other person acting to study or clean-up releases of hazardous substances into the environment and for damages or injury to or destruction of natural resources resulting from such releases. 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 of Florida to resolve State liability issues.

The System was also a PRP at the following sites: Rose Chemical in Holden, Missouri; Peak Oil in Tampa, Florida; PCB Treatment, Inc. site in Kansas City, Missouri; Osage Metals site in Kansas City, Missouri; and Mowbray Engineering in Greenville, Alabama. The System's liability for these sites has been resolved through settlements reached with EPA and, in the case of Rose Chemical, the Rose Chemical Steering Committee.

Management of the System 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 generally they are below the Florida 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.

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. On August 1, 1991, St. Johns River Water Management District ("SJRWMD") put in place a permanent district-wide restriction prohibiting residential irrigation between the hours of 10 AM and 4 PM daily.

Effective March 1, 2006, SJRWMD imposed lawn and landscape irrigation restrictions that limit irrigation to two days per week.

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 and a Notice of Proposed Rulemaking ("NOPR") to address and implement the transmission access provisions of the 1992 Energy Policy Act. Order No. 888 established the terms and conditions under which open access would be provided, and Order No. 889 established the rules of conduct surrounding the provision of open access, notably the separating of marketing from transmission and power operations. Municipally-owned electric utilities (including the System) are not subject to FERC jurisdiction under these orders but may be denied reciprocal transmission services from a FERC-jurisdictional utility if they do not offer comparable transmission services. As previously discussed, the System offers reciprocal 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. The implications of Order No. 2000 were further clarified and deepened when FERC issued its NOPR for a standard market design ("SMD") to accompany the formation of ISO/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.

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.

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 designated the Federal Energy Regulatory Commission ("FERC") to be the Electric reliability Organization authorized to set standards and administer penalties for non-compliance. The pre-existing, voluntary North American Electric Reliability Corporation ("NERC") has been delegated this authority under FERC, and in turn NERC has contracted with reliability regions across the nation to serve as their implementation agents. The Florida Reliability Coordinating Council, of which the System is member, is one of theses agents. The standards of compliance with the new ERO organization have begun a process of rapid development and change and the System is carefully keeping up with these developments to assure full compliance.

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.

2005 Florida Communications Legislation

In 2005 legislation was passed in Florida (SB 1322) that defined the conditions under which municipalities would be allowed to provide retail telecommunications services. Prior to offering advanced, cable or telecommunications services on a retail basis, governmental entities in Florida are now

required to: (a) hold at least two public hearings; (b) consider the current availability of these services in the community; (c) publicly present a business plan for the proposed service with sufficient revenues to exceed operating expenses, principal and interest within four years; (d) officially act to provide the retail service; (e) only issue revenue bonds for the services (as opposed to general obligation bonds), limited to use within the county where the governmental entity resides, the area of an established service territory, or the jurisdiction of any governmental entity that formally acts to permit the provision of the retail service within its boundaries, whichever is less restrictive; revenue bonds issued for this purpose are limited to a 15 year maturity unless otherwise approved by a public referendum; (f) retail services must not be subsidized; (g) maintain adequate record keeping and policies for cost allocation; (h) establish a separate enterprise fund; (i) establish a separate budget; (j) may not use its powers of eminent domain solely to provide communications services; (k) conduct annual reviews at a public meeting; and (l) if after 4 years revenues do not exceed operating expenses, principal and interest, a public meeting must be held to decide to either cease providing retail services and dispose of any facilities, create new partnerships, or continue to provide the services. Governmental entities already providing advanced, cable, or telecommunications retail services as of April 1, 2005 were exempted from requirements (a), (b), (c), (d), (e), (f), and (k) as itemized above. The System was already providing advanced and telecommunication retail services at that time and hence enjoys these exemptions. The System currently complies with all other requirements of SB 1322.

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 C 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 $10.76 billion (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 $300 million (currently available through commercial insurers) would be covered by a required pro-rata assessment under the retrospective rating program equal to $95.8 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of $15 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 $1,348,768 per incident but would be limited to approximately $211,000 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 $15,000,000 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 110 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 $7.9 million with respect to the primary coverage, $8.6 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 $300 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding $300 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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 2008 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel is of the further opinion that interest on the 2008 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that the 2008 Series B Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or

disposition of, or the accrual or receipt of interest on, the 2008 Series B Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix E.

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 2008 Series B Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2008 Series B Bonds will not be included in federal gross income. (See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2008 Series B Bonds" in APPENDIX C hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2008 Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2008 Series B 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 2008 Series B Bonds may adversely affect the value of, or the tax status of interest on, the 2008 Series B Bonds.

The Interest Mode and certain requirements and procedures contained or referred to in the Resolution, the Tax Certificate to be executed by the City simultaneously with the issuance of the 2008 Series B Bonds, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2008 Series B Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2008 Series B Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the 2008 Series B Bonds is excluded from gross income for federal income tax purposes and that the 2008 Series B Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations, the ownership or disposition of, or the accrual or receipt of interest on, the 2008 Series B 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 legislation, if enacted into law, or clarification of the Code may cause interest on the 2008 Series B Bonds to be subject, directly or indirectly, to federal 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 legislation or clarification of the Code may also affect the market price for, or marketability of, the 2008 Series B Bonds. Prospective purchasers of the 2008 Series B Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, 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 2008 Series B 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 2008 Series B Bonds ends with the issuance of the 2008 Series B 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 2008 Series B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their 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 2008 Series B 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 2008 Series B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Tax Status of the 2008 Series B Bonds

The 2008 Series 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 2008 Series B Bonds that allocate a basis in the 2008 Series B Bonds that is greater than the principal amount of the 2008 Series 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 2008 Series B Bonds for an amount that is less than the principal amount of the 2008 Series 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 2008 Series 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 2008 Series 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 2008 Series 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

[The 2008 Series B Bonds are expected to be issued with original issue discount ("OID"). Accordingly, a holder of a 2008 Series B Bond 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 2008 Series B Bond Bond. Thus, the holders of such 2008 Series 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 notes 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 2008 Series B Bond that purchases a 2008 Series B Bond for less than its adjusted issue price (generally its accreted value) will have purchased such 2008 Series 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 a 2008 Series 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 2008 Series B Bond that has an allocated basis in the 2008 Series 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 2008 Series B Bond with acquisition premium. The amount of OID that such holder of a 2008 Series B Bond must include in gross income with respect to such 2008 Series B Bond will be reduced in proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the 2008 Series B Bond. A holder of a 2008 Series B Bond may have a basis in its pro rata share of the Taxable 2008 Series B Bond that is greater than the principal amount of such 2008 Series B Bonds. Holders of 2008 Series B Bond 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 2008 Series B Bond under section 171 of the Code.]

Sale and Exchange of 2008 Series B Bonds

Upon a sale or exchange of a 2008 Series B Bond, a holder generally will recognize gain or loss on the 2008 Series B Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such 2008 Series B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the 2008 Series B Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a 2008 Series 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 payments or principal payments received on the 2008 Series B Bond. In general, if the 2008 Series 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.

See also, the Bond Description/ Redemption/ or Risk Factors Section regarding reissuance of the 2008 Series B Bonds upon defeasance.

Defeasance of 2008 Series B Bonds

Defeasance of any 2008 Series 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 2008 Series B Bond.

Foreign Investors

Distributions on the 2008 Series B Bonds to a non-U.S. holder that has no connection with the United States other than holding its 2008 Series 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 2008 Series B Bonds.

RATINGS

The 2008 Series B Bonds have received ratings of " " and " " S&P and Moody's, respectively. An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same. There is no assurance that such ratings or outlooks (if any) will be in

effect for any given period of time or that such ratings or outlooks (if any) 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 (if any) may have an adverse effect on the market price of the 2008 Series B 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 2008 Series B Bonds, or in any way questioning or affecting (i) the proceedings under which the 2008 Series B Bonds are to be issued, (ii) the validity of any provision of the 2008 Series B 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 is 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. During the pendency of the litigation the System has, in accordance with Florida law, declined to pay the disputed taxes for tax years 2003 – 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 generating station) while remanding the issues of taxation of the Internet service and fiber optic assets to the trial court. The exposure for taxes now due from GRUCom for the towers is estimated to be $61,000 (Deerhaven real property less than $200,000). The estimated taxes and interest on the Internet service and fiber optic assets as of the 2007 tax bills is $1.2 million. Sufficient funds have been budgeted by GRUCom to pay any ad valorem tax obligation ultimately determined to be payable. However, funds have not been set aside in a funded reserve. Accordingly, payment of the taxes upon the Deerhaven property and the towers will not materially affect the financial condition of the System. Management believes there is substantial opportunity to succeed in its "as applied" constitutional challenge to the assessments and will continue to vigorously pursue the case.

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 of the System 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.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the 2008 Series B Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F 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 Underwriter by Nixon Peabody LLP, New York, New York, Counsel to the Underwriter. Certain legal matters with respect to the Initial Liquidity Facility and the Bank will be passed upon for the Bank by [ ],[ ], counsel to the Bank.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2007 and 2006 and for the years then ended, included in APPENDIX A hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2008 Series B Bonds from the City at an aggregate discount of $ from the initial offering price thereof. The 2008 Series B 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 Underwriter. The Underwriter is Goldman, Sachs & Co.

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 2008 Series B Bonds. In addition, the 2008 Series B 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 2008 Series B 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 /s/ Karen S. Johnson
General Manager for Utilities

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APPENDIX A

AUDITED FINANCIAL STATEMENTS TO BE PROVIDED

GENERAL INFORMATION REGARDING THE CITY OF GAINESVILLE AND ALACHUA COUNTY

Location

The City of Gainesville, Florida (the "City") is the county seat and population center of Alachua County. It is located in north-central Florida approximately 75 miles southwest of Jacksonville and approximately 110 miles northwest of Orlando, and midway between the Gulf and Atlantic Coasts.

Organization and Administration

The City was founded in 1854 and incorporated in 1869. The City Commission currently consists of seven members. Four are elected from single member districts and three are elected Citywide. In March 1998, the residents of Gainesville elected their first directly elected Mayor since 1927. Previously, mayors were elected from among the commission. The Mayor retains the same power as held in the prior Mayor-Commission form of government. The City Charter prohibits consecutive service on the Commission for more than two three-year terms.

The City Commission appoints a General Manager for Utilities who is responsible for the overall administration of the utilities system.

The City provides a full range of municipal services, including: police and fire protection; comprehensive land use planning and zoning services; code enforcement and neighborhood improvement; streets and drainage construction and maintenance; traffic engineering services; refuse and recycling services through a franchised operator; recreation and parks; cultural and nature services; and necessary administrative services to support these activities. Additionally, the City owns a regional transit system, a municipal airport, a 72 par championship golf course, and the Gainesville Regional Utilities System.

Population

As of April 2000, the United States Census Bureau estimates the City's population to have been 95,447, while Alachua County's population was 217,955 and Florida's population was 15,982,378. The Bureau of Economics and Business Research at the University of Florida estimated a 2007 population of 247,561 in Alachua County. As of April 2007, an estimated 122,671 persons resided within the City limits. In 2007, the official State of Florida population was 18,680,367. The following tables depict official historical population growth of the City, Alachua County and the State of Florida.

Population Growth

Year	City of Gainesville Population	Percentage Increase	Alachua County Population	Percentage Increase	State of Florida Population	Percentage Increase
1940	13,757	-	38,607	-	1,897,414	-
1950	26,861	95.3%	57,026	47.7%	2,771,305	46.1%

1960	29,701	10.6	74,074	29.9	4,951,560	78.7
1970	64,510	117.2	104,764	41.4	6,791,418	37.2
1980	81,371	26.1	151,369	44.5	9,746,961	43.5
1990	85,075	4.6	181,596	20.0	12,937,926	32.7
2000	95,447	12.2	217,955	20.0	15,982,378	23.5

Source: U. S. Bureau of the Census.

Between 1990 and 2000, annual compound growth rates for Gainesville, Alachua County and Florida were as follows:

	Annual Compound Growth Rate
Gainesville	1.2%
Alachua County	1.8
Florida	2.1

In the past six years, Gainesville has grown at twice the rate of Florida State. However, the demographic mix and economic activity help create a stable population mix. This stability is due to the region's demographic mix and its composition of economic activity. For Florida, more than 85% of population growth from 1990 to 2000 resulted from net migration. By contrast, Alachua County's net migration was approximately 67% during this time. Alachua County's population is also younger than state-wide averages. For example, 16.8% of Florida's population is 65 or over compared to 10.2% in Alachua County. Thus, with fewer retirees and a lower rate of net migration in Alachua County, its population is more stable than Florida as a whole.

Economy

The area's economic mix also provides substantial stability. Alachua County's economy is dominated by employment at the University of Florida (the area's largest employer), other state and local governmental agencies, the area's four major hospitals and the retail trade sector.

The tables below display the size and composition of the area's employment and its major employers. This economic composition provides the strength and stability, which characterize the region's economy. Fluctuations in the national economy have but little impact on Alachua County's major employers. As a result, the County has one of the lowest unemployment rates in Florida. Local, state and national annual average unemployment rates for October 2007 are compared below.

	Unemployment Rates
Gainesville metropolitan statistical area (local)	3.0%

Florida (state)	4.3
United States (national)	4.7

Non-Agricultural Employment Distribution
Gainesville MSA October 2007

Sector	Number Employed (in thousands)	Percentage of Total
Natural Resources, Mining and Construction	6.3	4.7%
Manufacturing	4.7	3.5
Trade, Transportation and Utilities	18.8	14.0
Information	1.9	1.4
Financial Activities	6.6	4.9
Professional and Business Services	12.7	9.4
Education and health Services	22.6	16.8
Leisure and Hospitality	14.5	10.8
Other Services	4.3	3.2
Government	42.1	31.3
Total	134.5	100.0%

Source: Department of Labor and Employment Security, Division of Labor Employment and Training, Current Employment Statistics, October 2007.

Major Employers in the Gainesville Area

Name	Product or Service	Employees
University of Florida	Education	12,212
Shands Hospital	Medical Care	7,508
Alachua County School Board	Education	4,195
Veterans Administration Hospital	Medical Care	2,700
City of Gainesville	Local Government	2,357
Florida Department of Children and Families	Social Services	2,119
Alachua County	Local Government	1,938
Publix	Retail Grocery	1,865
North Florida Regional Medical Center	Medical Care	1,646
Nationwide Insurance	Insurance	1,099
Santa Fe Community College	Education	831
The Crom Corporation	Precast Concrete Products	588
Dollar General Distribution Center	Retail Distribution Center	588
U.S. Postal Services	Postal Services	583
Gator Dining Services	Food Services	500

Source: Gainesville Council for Economic Outreach (2005).

Educational Activity

The University of Florida is a major public, comprehensive, land-grant, research university. On its Gainesville campus are approximately 51,520 students, approximately 3,540 faculty and 12,000 staff. In 1985 the university became a member of the Association of American Universities, the prestigious higher education organization comprised of the top 62 public and private institutions in North America. A land-grant university with a distinguished record of developing Florida agriculture through research and extension services, the university is among the nation's 88 leading research universities as categorized by the Carnegie Commission on Higher Education. The university attracted more than $518.8 million in research support in 2005-2006, more than all other Florida Universities combined. The University offers more than 100 undergraduate majors and more than 200 graduate programs and five major professional programs. In addition to more than 150 research, service and education centers, bureaus and institutes, the university has 16 colleges and schools. Some of the university's facilities include the 1,800 seat Center for the Performing Arts, which attracts nationally and internationally recognized performers. Next to the Center is the Harn Museum of Art, one of the largest exhibition facilities on any university campus with major collections and shows. The university's Museum of Natural History is one of the nation's largest. Other campus facilities include the 900-seat, general-purpose University Auditorium; the 12,000 seat capacity O'Connell Center for sports, concerts and arena activities; Ben Hill Griffin Stadium with approximately 89,000 seat capacity; Constans Theater, University Gallery, Grinter Gallery and the Reitz Union with its ballroom, auditorium and galleries.

Gainesville is also home to Santa Fe Community College, a student-centered college accredited by the Southern Association of Colleges and Schools and the Florida State Department of Education. Santa Fe Community College enrolls more than 30,000 students annually at three centers in Gainesville. Santa Fe offers both credit and non-credit programs that enable students of all ages to begin their college educations, train for careers, upgrade job skills or develop new hobbies. The Associate of Arts degree program prepares students for transfer to four-year colleges or universities. More than 60 Technology and Applied Sciences programs prepare students for careers.

Medical Activity

With four large health care institutions, and nearly 2,000 practicing physicians or surgeons, Gainesville is a regional focal point for medical research and treatment. The University of Florida Health Science Center, which includes the 630-bed Shands Teaching Hospital, is one of the largest medical complexes in the South. Shands encompasses a teaching hospital, clinics, and the Colleges of Medicine, Nursing, Dentistry, and Health Related Professions. The Shands at AGH Hospital accommodates 367 beds and includes a 105,000 square foot professional office building with over 45 physicians.

In 2007, Shands at the University of Florida was once again named one of America's premier medical centers. Seven Shands specialties were ranked among the top 50. Shands at UF placed at No. 20 for its expertise in respiratory medicine. Close behind were ear, nose and throat medicine at No. 23 and geriatrics at No. 27. Specialists in urology, heart, kidney disease, and

gynecology were also ranked in the top 50. In Florida, Shands was ranked as the top hospital for geriatric, heart, kidney respiratory and urology care.

A Veterans Administration Hospital is located in Gainesville with 478 beds and the North Florida Regional Hospital (owned and operated by the Hospital Corporation of America) accommodates 278 beds. Adjoining the North Florida Regional Hospital is the Regional Doctors Office Park with offices and clinics for over 285 physicians.

Retail Trade

Gainesville is the retail hub of North Central Florida. Its 45 distinctive shopping centers lure shoppers from 13 counties. A major attraction is the 1 million square foot Oaks Mall, an enclosed shopping facility with five anchoring department stores and 150 other shops, boutiques, and services.

Industrial Activity

ALACHUA COUNTY
Largest Manufacturers

Name of Firm	Business	Number of Employees
The Crom Corporation	Precast Concrete Products	588
Georgia-Pacific Corporation	Hardwood veneer & plywood	450
Hunter Marine Corporation	Boat building & repairing	375
Gainesville Sun	Newspapers	247
Drilltech Mission, LLC	Mining machinery	240
Clariant LSM	Organic Chemicals	216
Exactech, Inc.	Surgical appliances & supplies	155
Metal Container Corporation	Bottle tops, can lids	142
Campus Communications.	Newspapers	136
Fabco Air, Inc.	Fluid power valves & hose fittings	100

Source: *2007 Gainesville Area Manufacturers Directory*, Gainesville Area Chamber of Commerce.

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