NewGen Strategies & Solutions

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October 2, 2025
via david.margolis@myclearwater.com

Mr. David Margolis, B.C.S.
City Attorney
City of Clearwater
600 Cleveland Street, Suite 600
Clearwater, FL 33755

Subject: **Clearwater Feasibility Study Contract Budget Amendment Request**
PO#: 24001051

Dear David:

As discussed, NewGen Strategies and Solutions, LLC (NewGen) is requesting a budget amendment to the existing City of Clearwater (City) Feasibility Study contract (Purchase Order #: 24001051). The purpose of this budget amendment is to provide appraisal services for the Duke Energy Florida (Duke) distribution-related assets within the proposed Clearwater Municipal Electric Utility (MEU) service territory.

NewGen has prepared the enclosed Scope of Services to develop an opinion as to the Fair Market Value of the defined "assets" as of a specific valuation date (see Attachment A). The defined assets and valuation date will be determined in coordination with the City and its legal counsel. The Fair Market Value appraisal of the assets will be supported with a standalone report as well as written testimony as requested by the City. NewGen will rely on generally accepted valuation methods and procedures in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.

Grant Rabon, who is an Accredited Senior Appraiser (ASA) with a designation in Public Utilities from the American Society of Appraisers, will lead the development of this appraisal. Grant will be supported by me as the Project Manager and other staff as necessary. As noted herein, NewGen does not provide appraisals of real estate property; therefore, the City will need to contract with a qualified entity to provide a real property appraisal, as necessary, to support its efforts.

NewGen is requesting an amendment to the current Feasibility Study contract budget for a not-to-exceed amount of $604,000 to complete this assignment, which will be billed to the City on a time and expense basis. As indicated herein, this assignment includes the development of direct testimony as requested to support the City's acquisition of the Duke assets. However, the litigation process may require extended interactions with Duke in the period leading up to a trial and may also involve post-appraisal tasks. These may include responding to interrogatories; participating in depositions, hearings, and trial; and performing other tasks as necessary to support the City's litigation efforts. The request for the amended contract budget does not contemplate these post-appraisal tasks and, therefore, additional budget may be required to continue to support the City through a final determination of all issues as necessary and as requested.

We greatly appreciate the opportunity to continue our relationship with the City in its Feasibility Study and to provide our appraisal services. If you have any questions regarding the enclosed, please contact me directly at (720) 259-1762 or sburnham@newgenstrategies.net.

Sincerely,

NewGen Strategies and Solutions, LLC

DocuSigned by:
B7FBFC962DA6432...
Scott Burnham
Partner

Signed by:
Grant Rabon
D0BBF3F379164C0...
Grant Rabon
Partner, ASA

Attachment A:
CITY OF CLEARWATER, FL
SCOPE OF SERVICES FOR UTILITY APPRAISAL SERVICES

INTRODUCTION

NewGen Strategies and Solutions, LLC (NewGen) is pleased to submit this proposal for appraisal services for the City of Clearwater, Florida (City). We are excited to be a part of this historic project and believe that its impact on the City will be significant.

Our appraisal team includes accredited public utility appraisers that have relevant experience with similar engagements for other public entities. Additionally, NewGen has partnered with Barr Engineering—specifically with Tom Ghidossi—on numerous projects, giving us direct familiarity with their work product and ensuring a seamless workflow. The collective project team will provide the City with the data it needs to support the acquisition of Duke Energy Florida's electric distribution system serving customers in the City and its enclaves. NewGen will rely on the identification of assets to be acquired (the Assets), as determined by Barr Engineering.

FIRM INFORMATION

NewGen is a management and economic consulting firm specializing in serving the utility industry. NewGen primarily serves public sector utilities and provides nationally recognized expertise in utility cost of service and rate design studies; depreciation and appraisal studies; litigation support for state and federal regulatory proceedings; utility business and financial planning; and stakeholder engagement for electric, natural gas, water, wastewater, and solid waste utilities.

NewGen applies our expertise and delivers high-impact solutions through our diverse and integrated market perspectives—resulting in effective decision-making and implementation.

NewGen was created by consultants dedicated to our clients' missions and recognized as experts in our respective fields of service. We provide assistance to the public sector with keen insight into navigating uncertain markets, the growing role of stakeholders, resource availability (including renewables), environmental concerns, the cost of providing utility services, and evolving economic conditions. This integrated perspective ensures thoughtful decision-making and allows us to deliver solutions and recommendations tailored to our clients' needs. In short, *"Thoughtful Decision Making for Uncertain Times"* captures our commitment to providing expert guidance and practical strategies in an ever-changing utility landscape. NewGen employs three of an elite group of fewer than 20 individuals nationwide who have earned the Accredited Senior Appraiser (ASA) designation in the Public Utilities from the American Society of Appraisers.

PROJECT APPROACH

NewGen proposes to perform a Fair Market Value (FMV) appraisal of the Assets and support the appraisal with testimony as needed. NewGen will rely on generally accepted valuation methods and procedures in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation. There are three generally accepted valuation approaches that can be used to estimate the FMV of the Assets: the Cost Approach; the Income Approach; and the Market Approach.

- The Cost Approach analyzes various cost methods, such as the Original Cost Method and the Reproduction Cost Method.

- The Income Approach values the property by determining the current worth of prospective net earnings using a discounted cash flow analysis. This approach will inherently include the going concern value of the Assets.
- The Market Approach assesses value based on recent sales of similar systems under similar circumstances.

It is understood that the assets to be acquired will likely include all electric distribution facilities necessary to provide electrical service within the proposed Clearwater Municipal Electric Utility (MEU) service territory, which includes areas within and beyond the Clearwater municipal boundaries. The assets to be acquired will include all overhead and underground distribution lines, street lights and poles, connections to the transmission grid, distribution transformers, protection and sectionalizing equipment, voltage regulating equipment, customer meters, fiber and communications systems, and ancillary interests and appurtenances, as well as the property interests related to the facilities. **Critically, NewGen does not appraise real estate**, so the City will need to have any real property appraised by a qualified entity. NewGen will review the work product of the real estate appraiser and incorporate this into our appraisal, as appropriate.

Scope of Work

Task 1: Project Initiation and Data Collection

After reviewing the work product of Barr Engineering, NewGen may develop a data request to cover desired data needed to complete the appraisal. We expect that some data may be available in the public domain; however, we understand that Duke Energy Florida may not be forthcoming with information in response to a data request. Therefore, to the extent necessary, NewGen will develop surrogate data or make reasonable assumptions where possible to compensate for any information not obtainable from Duke Energy Florida or in the public domain.

Task 2: System Inventory, Cost Estimates, and Age

NewGen will rely upon Barr Engineering’s work product, including an inventory of the existing assets segregated by type of facility (e.g., overhead or underground distribution, transformers, meters, substations, etc.), as well as unit cost estimates for reproduction cost new applicable to each of the types of facilities. To the extent that the age of facilities is not known (either from data provided by Duke Energy Florida or from an observable manufacturer’s label), the approximate age of facilities will be estimated by Barr Engineering. This estimate of age may need to be inferred from context clues, such as visible observation, prevalence of asset type over time, or surrounding infrastructure being served. For example, if a neighborhood was constructed in the 1980s, it can be reasonably inferred that the distribution system serving that neighborhood was constructed in the same timeframe.

Task 3: Site Visit and Condition Assessment

NewGen will tour a representative sample of the facilities to be acquired. This site visit will be limited to a visual and external observation for the purpose of assisting in forming an opinion as to whether the property has been maintained, preserved, and kept in good repair, working order, and condition. The review will not be of sufficient depth to reveal all conditions relating to safety or to conformance with agreements, codes, permits, rules, or regulations governing the design, construction, operation, and maintenance of the property. If conditions are discovered during the field review that warrant further investigations, we will bring these to the attention of the City.

Without Duke Energy Florida's support, this work will be limited to areas that are accessible to the public and overhead facilities.

Task 4: Estimate Value Under the Cost Approach

NewGen will develop indicators of value using the Cost Approach. Barr Engineering will estimate the Reproduction Cost New for the Assets as of the valuation date. Reproduction cost is generally defined as the cost of reproducing a new replica of the property at current prices with the same or closely related materials. Replacement cost is generally defined as the current cost of a similar new property having the nearest equivalent utility as the property being appraised. While these two terms are often used interchangeably for appraisal purposes—as technology has not changed most utility property (especially electric distribution property)—there can be differences in equipment used over time. Thus, NewGen will work with Barr Engineering to ensure that the values estimated are reflective of reproduction cost.

Using the results of the condition assessment and the approximate age of the facilities, NewGen will apply depreciation parameters (average service life, survivor curves, and net salvage rates) applicable to Duke Energy Florida to estimate the amount of physical depreciation present in the facilities. In addition, NewGen will assess the extent to which any functional obsolescence or economic obsolescence is present in the Assets, which were not considered in any preliminary work completed by NewGen.

NewGen will then determine an independent estimate of the Reproduction Cost New Less Depreciation (RCNLD) value of the Assets by deducting the estimated depreciation discussed above from the estimated Reproduction Cost New. We will also determine the estimated Original Cost Less Depreciation (OCLD) value using appropriate construction cost indices based on the average age (vintage year) of the property to estimate the net book value of the Assets.

Task 5: Estimate Value Under the Income Approach

The development of the value for the Assets under the Income Approach will be based on a discounted cash flow (DCF) analysis. This method requires the development of a projection of revenues, expenses, capital expenditures, and resulting free cash flow. The DCF analysis will be performed under the assumption of a hypothetical buyer—specifically, a taxable entity (i.e., an investor-owned utility).

Task 6: Estimate Value Under the Market Approach

NewGen will review non-confidential information that is available to us, trade press articles, and other databases to help determine the sales prices for other electric distribution systems to form an indication of value for the Assets.

Task 7: Estimation of Fair Market Value

Taking into consideration all the indicators of value determined in the preceding tasks, NewGen will develop an opinion as to the FMV of the Assets as of the valuation date. While the exact definition of FMV can vary in different states or in different engagements, a common definition of FMV used in appraisals is as follows:

> The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting

at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.[1]

Compensation under F.S.A. § 73.0175 "shall include the reproduction cost of the property sought to be appropriated less depreciation, together with going concern value, and, when less than the entire property is sought to be appropriated, any damages to the remainder caused by the taking." Thus, NewGen's appraisal will inform compensation appropriate under Florida statutes for the type of property to be acquired.

Task 8: Reports

NewGen will prepare an appraisal report documenting the basis for our opinion of the FMV of the Assets as of the valuation date. We will submit a draft of the report to the City for review and comment. Following receipt of comments, the final appraisal report will be prepared, incorporating comments on the draft report where appropriate. Direct testimony will be developed, as needed, to communicate the results of the appraisal in a litigated venue.

Schedule of Work

NewGen will commit the necessary resources to complete a draft of the appraisal for review and comment within six months of notice to proceed.

FEE ESTIMATE

The services outlined in the scope of work will be conducted on a time-and-expense basis and within the revised, amended Feasibility Study's not-to-exceed contract value of $604,000. This revised contact value is inclusive of the development of direct testimony as needed to support the City's acquisition of the Assets. However, this process may involve lengthy interactions with Duke Energy Florida during the lead-up to a trial. These post-appraisal activities might include responding to interrogatories, participating in depositions/hearings/trial, and conducting other tasks in support of the City. The estimated revised contract value above does not contemplate these post-appraisal tasks and, therefore, additional budget may be required to continue to support the City through a final determination of all issues.

[1] Pratt, Shannon P., Robert F. Reilly, and Robert P. Schweihs. *Valuing a Business: The Analysis and Appraisal of Closely Held Companies*, Fourth Edition. New York: McGraw-Hill, 2000, Appendix A, International Glossary of Business Valuation Terms, page 913. *See also* American Society of Appraisers. *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical System*, Second Edition. Washington, DC: American Society of Appraisers, 2005, Glossary of Terms, page 566.