

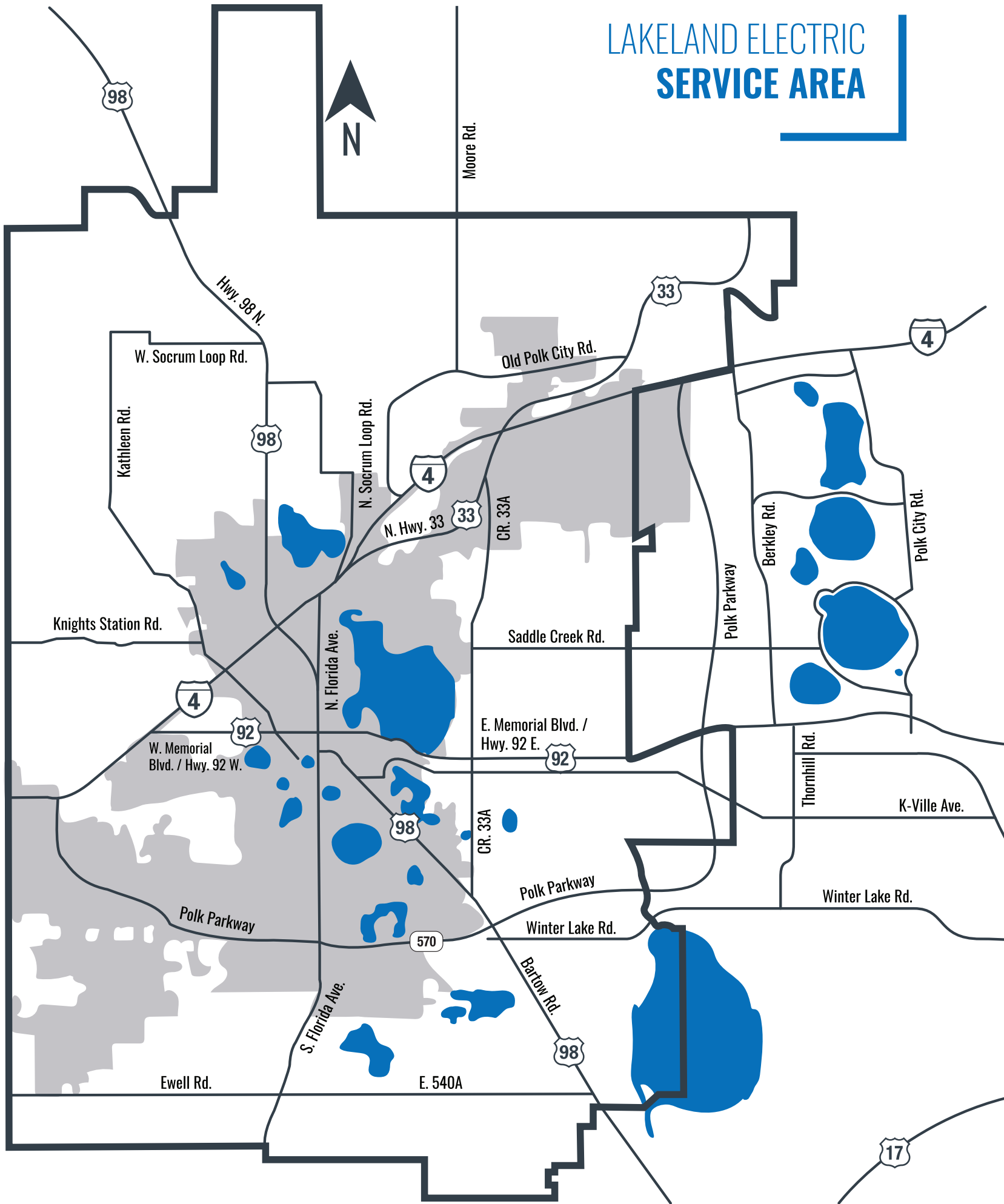


LAKELAND ELECTRIC 2016 ANNUAL REPORT

Department of Electric Utilities
An Enterprise Fund of the City of Lakeland, Florida



LAKELAND ELECTRIC SERVICE AREA



LEGEND


Service Area Boundary


City of Lakeland


Roads


Lakes

INSIDE THESE PAGES

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By The Numbers **10-11**

Affordable **14-15**

Dependable **16-19**

Sustainable **20-25**

Financial Activity **26-31**

E. Memorial Blvd. /
Hwy. 92 E.

92

Recker Hwy.

OUR VISION

Powering our community with excellence in energy solutions.

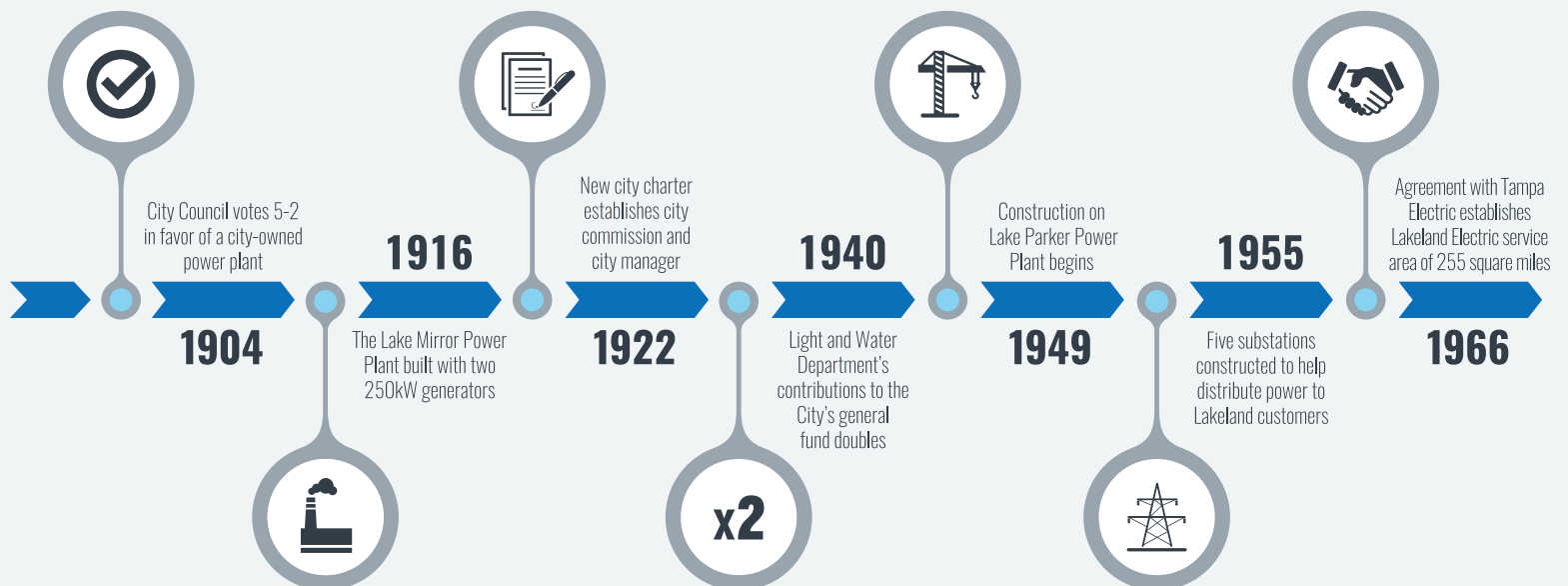
OUR MISSION

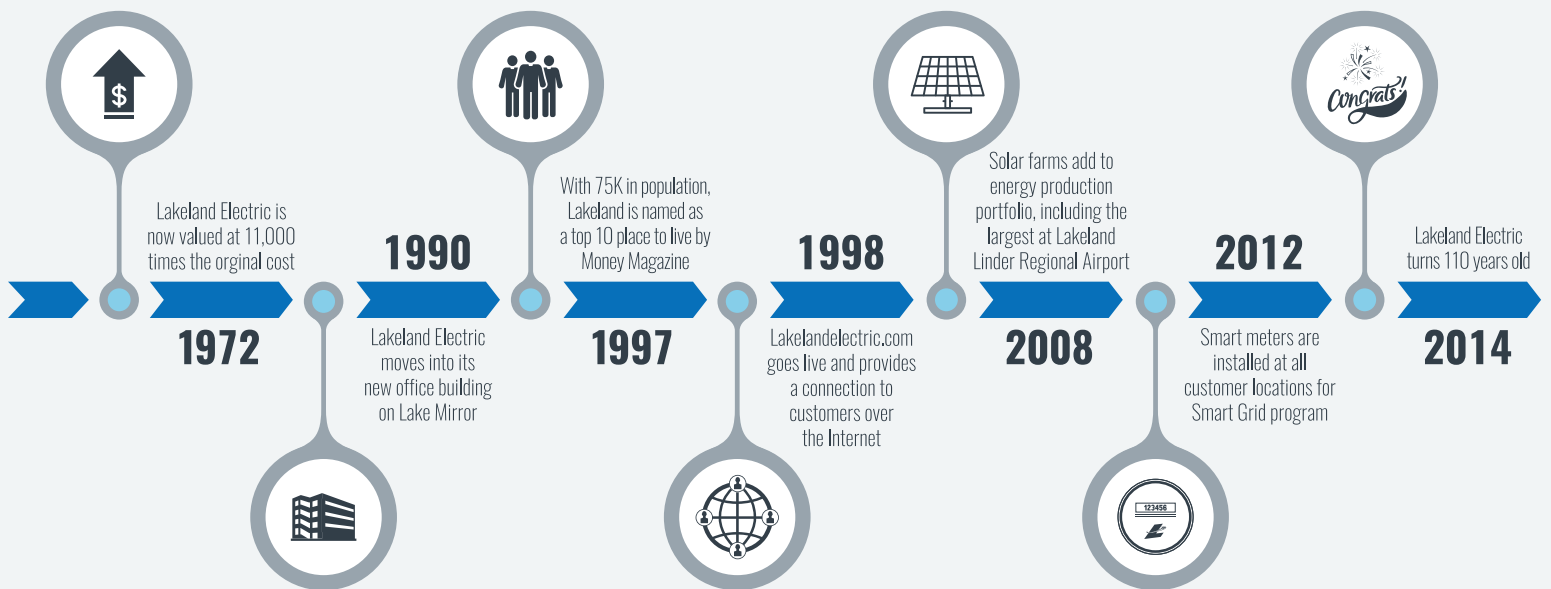
Committed to providing safe, reliable, competitive, and environmentally responsible energy solutions to enrich our customers' quality of life.

CORE VALUES

Appreciation, customer focus, safety, diversity, accountability, initiative, teamwork, integrity, open communication

LAKELAND ELECTRIC THROUGH THE YEARS





LAKELAND ELECTRIC EXECUTIVE TEAM



**JOEL
IVY**
General Manager



**MIKE
BECKHAM**
Assistant General
Manager - Production



**JOHN
McMURRAY**
Assistant General
Manager - Energy
Delivery



**GINA
JACOBI**
Assistant General
Manager - Fiscal
Operations



**DAVID
KUS**
Assistant General
Manager - Customer
Service

Dear Customer,

Is Lakeland Electric affordable, dependable, and sustainable? I ask myself this question every day. And in Fiscal Year 2016, it was positively answered in many ways.

Living in a community with a municipal utility --- meaning the community owns the utility, not a private company --- is a good thing. It is good because the utility belongs to its customers. It is good because you have a say in how things are run by way of your City Commissioners. It is good because the work force are members of the community, and therefore highly interested in the success of the utility.

Because of these and many other positives, customers of Lakeland Electric benefit by having some of the lowest electric rates in the state of Florida. This is due in part to a strong and smart work force that embraces challenges and change. Another reason is we generate our own power. That gives us choices - choices that allow us to save money and make economic decisions in the best interest of our customers.

All these things allow Lakeland Electric to be a proud contributor to the community's quality of life. With the profits generated by people using electricity, we put those profits right back into the community by supporting public safety and our high-quality parks. Land owners in the city limits also have low property taxes thanks to Lakeland Electric. We also have a dedicated effort known as Community Giving, which allows our employees to volunteer to help local charities and civic organizations that are making differences in the lives of the citizens they serve.

In the Fall of 2016, Florida and the Southeast United States experienced hurricanes and heavy storms. With Hurricane Matthew, Lakeland Electric had minimal outages related to the storms. We were proud to provide crews to help with restoration projects in those communities hit the hardest. Even through the storms, Lakeland Electric ended the year with a reliability factor in the first quartile of all utilities across the US.

**JOEL
IVY**
General Manager



In 2016, we also continually endeavored to provide our customers with choices. The year saw the launch of four Express Pay Kiosks throughout the city that allow customers to pay their bill using multiple methods any hour of the day, any day of the week, with immediate posting to their account. We also launched an outage notification service. This service not only advises customers via text, email, or phone, if their home was out of power, but also the anticipated length of the outage and provides confirmation once the power had been restored.

Lakeland Electric has a long history of energy conservation and alternative energy programs. To showcase the various energy conservation and environmental programs and services we offer our customers, the ReEnergize Lakeland brand was re-introduced. Comprised of energy saving programs, tree programs, and solar programs, the revised ReEnergize Lakeland program was launched via a calendar featuring the artwork of local school children. The calendar demonstrated and discussed the many different programs under this brand, including tree giveaways and free energy audits.

Lastly, but not least, I would like to brag about the employees here at Lakeland Electric. Our industry is going through significant change, thanks to technology, new science, and an aging workforce that is retiring in great numbers. With that, we see opportunities and difficulties. But, I am so impressed with the employees at Lakeland Electric. They are flexible, forward-thinking, and willing to roll their sleeves up and get involved in whatever the work requires of them. And I appreciate that. You cannot create passion and ambition where there is none. Because of this, our customers benefit from having a highly affordable, seriously dependable, and an easily sustainable electric utility.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Joel Ivy".

Joel Ivy
General Manager



Lakeland
CITY OF
CITY HALL



228



CITY OF LAKELAND
COMMISSION



HOWARD
WIGGS
Mayor



JIM
MALLESS
Commissioner
at Large



BILL
READ
Commissioner
Northeast District



JUSTIN
TROLLER
Commissioner
at Large



DON
SELVAGE
Commissioner
Southwest District



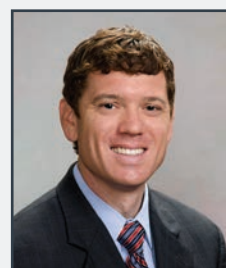
PHILLIP
WALKER
Commissioner
Northwest District



EDIE
YATES
Commissioner
Southeast District



TONY
DELGADO
City Manager



BRAD
JOHNSON
Deputy City Manager



SHAWN
SHERROUSE
Assistant City
Manager

CITY OF LAKELAND
MANAGEMENT

**GINA
JACOBI**
Assistant General Manager -
Fiscal Operations



March 2017

To the Ratepayers of Lakeland Electric:

We are pleased to present you with our Popular Annual Financial Report (PAFR), as defined by the Government Finance Officers Association (GFOA), of Lakeland Electric (LE) for the fiscal year ended September 30, 2016. The following pages provide a summary of your Electric Utility's major initiatives, statistical data, and financial condition.

The financial information presented here is summarized and does not substitute for the Comprehensive Annual Financial Report (CAFR). The CAFR details LE's financial position and operating activities for each fiscal year, in conformity with Generally Accepted Accounting Principles (GAAP). This PAFR, by its summary nature, is not intended to conform to GAAP and associated reporting standards set forth by applicable governing bodies. Both the budget and CAFR have received awards for outstanding financial reporting from the GFOA.

We hope this report will give you a better understanding of Lakeland Electric and its financial condition. We welcome your comments and suggestions.

You may find other information regarding Lakeland Electric, including this Annual Report (PAFR), annual budget and CAFR, on the City of Lakeland's website: lakelandgov.net.

Respectfully submitted,

Gina Jacobi
Assistant General Manager - Fiscal Operations

BY THE NUMBERS

RETAIL kWh
SOLD

—
**3.1
BILLION**

NUMBER OF
EMPLOYEES

—
529



Government Finance Officers Association

**Award for Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**City of Lakeland, Florida
Department of Electric Utilities**

For its Annual Financial Report
for the Fiscal Year Ended
September 30, 2015

Executive Director/CEO

CUSTOMERS

126,782

NUMBER OF CUSTOMERS

CUSTOMER CONSUMPTION



83% Residential | 10% Commercial & Industrial | 7% Private Area Lighting



49% kWh Residential | 50% kWh Commercial & Industrial | 1% kWh Private Area Lighting

OPERATIONAL REVENUES

\$296.6 MILLION

CUSTOMER REVENUE



61% Residential | 37% Commercial & Industrial | 2% Private Area Lighting

OPERATIONAL EXPENSES

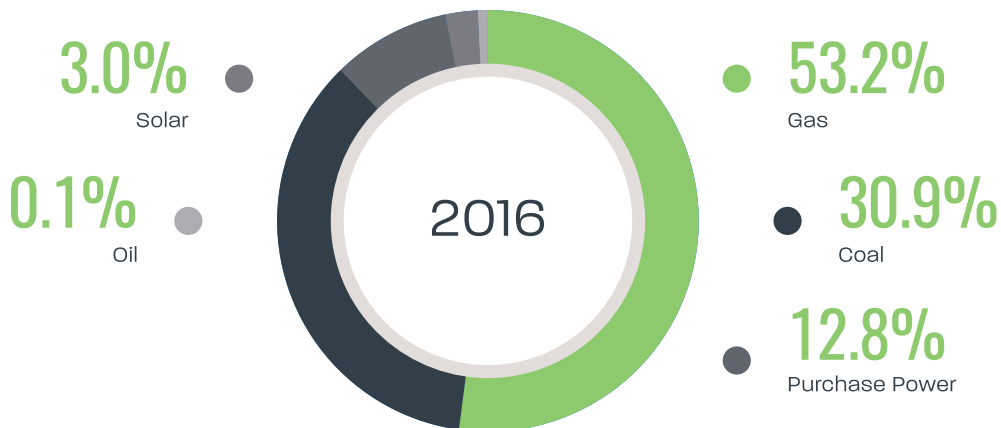
\$234.6 MILLION

GENERAL EXPENSES



109.5M Fuel | 26.4M Production | 23.9M Delivery

FUEL EXPENSES BY CATEGORY







AFFORDABLE DEPENDABLE **SUSTAINABLE**

Lakeland Electric's three main goals are to remain affordable, dependable, and sustainable. Typically, we speak about these three goals in this same order – affordable, dependable, sustainable. But it is important to note that of the three goals, affordability and dependability are completely dependent on sustainability.

Having a sustainable business model means we serve people, we protect our planet, and we earn a profit, and we do it year after year. If we sustain our business successfully, affordability and dependability are natural outcomes of the business environment.

WE ARE **AFFORDABLE**

For several years, Lakeland Electric continually has some of the lowest prices for electric in the State of Florida. There are many reasons for this notable accomplishment, starting with the fact that we are a municipal utility.





LOCAL CONTROL

Being a municipal utility means the customers are also the owners of Lakeland Electric and the City Commission provides oversight to the operations of the utility. This local level of control directly benefits the customers because their best interest is always the priority. Unlike a privately-owned utility, Lakeland Electric's priority is not a group of shareholders around the globe, but the people that live and work in our community.

POWER PLANT FLEET

Lakeland Electric is also an affordable municipal because we have a fleet of power plants and generate our own electricity. This gives us leverage to keep our prices low by choosing to either make our own power or to buy it off the grid from other power producers.

FINANCIAL ACUMEN

Over the last several years, Lakeland Electric's Leadership has created and executed a very successful financial strategy, ensuring the business remains sustainable. Our financial position is solid; as indicated by our earnings, ability to invest in our infrastructure, and our credit ratings. In fiscal year 2016, Lakeland Electric earned \$19.7 million, invested \$30.7 million into its utility plant and reduced its long-term debt by \$13.5 million. Through stringent cost control and a focus on productivity improvement, we also successfully cut our operating costs year-over-year. In 2016, Lakeland Electric's Finance staff, in conjunction with the City of Lakeland's Finance Department, simplified Lakeland Electric's debt structure by refinancing \$95 million of its variable debt. As a result, 74 percent of Lakeland Electric's long-term debt is now fixed, up from 51 percent. Fitch Ratings™, Moody's™, and Standard & Poor's™ Ratings Services assigned long-term ratings of AA-, Aa3, and AA, respectively, to Lakeland Electric's 2016 energy system bonds. At the same time, all three rating services affirmed the same ratings on the utility's existing debt.

WE ARE **DEPENDABLE**

In any business, being dependable equates to a healthy, sustainable business. In the electric industry, dependability is critical. To make sure our electric customers are satisfied, the lights must come on every time they flip a light switch. No doubt. No question.

STORMS OF **2016**

The Storm Season of 2016 brought numerous storms to Florida. Hurricane Matthew caused minimal damage to Lakeland Electric's wires and poles and we were fortunate to have the system re-energized in less than a day. To do this, it took a team effort from many departments throughout Lakeland Electric. Our Customer Service staff manned the telephones and social media throughout the storm to ensure customers could easily communicate with us. Our Line Crews were out and braved the weather to keep the lights on. And many employees helped in ensuring we had supplies and people in place in case the storm caused significant damage to the community.

Other areas of our state and of the Southeast United States were not as lucky and sustained significant damage to their systems. As part of a mutual aid agreement Lakeland Electric holds with other utilities around the country, as soon as the most destructive storms passed, our Lakeland Electric Line Crews and City of Lakeland Mechanics were on the road to the hardest hit communities in Florida and South Carolina to help restore their power. This work is always very hard; our crews find the rewards of helping a community in need make it worth the effort.

RELIABILITY IN **FIRST QUARTILE**

Lakeland Electric prides itself on its dependability and the constant projects we do to maintain and improve our infrastructure. Our delivery crews are a highly-trained group of professionals who take on great responsibility to perform their jobs, and they do it with pride. They also evaluate new technologies to improve the



way we serve you. From using battery storage to reducing peak electricity demand, to drone technology for speedier transmission pole line inspections, we are always looking for new ways to keep our reliability high. Our crews have done an outstanding job over the years. Currently, Lakeland Electric is ranked in the top group of Most Reliable Electric

Utilities in the United States based on the historical trend from the Southern Company Benchmark for U.S. electric utilities. Our average customer outage is slightly less than 60 minutes long and the average annual number of outages per customer is slightly over one.





CUSTOMER SERVICE IN **FIRST QUARTILE**

Serving our customers well is our highest priority. We are always looking for ways to keep operational costs low so our customers' electric prices remain low. We do this in many ways. From reading meters quickly and accurately, to ensuring our call wait times are low, we take customer service seriously.

Annually, the Customer Service staff's effectiveness and responsiveness are measured in several ways. Likewise, their professionalism, communication ability, problem solving, and many other skills are measured and compared to other electric utilities across the United States.

Lakeland Electric is very proud to report we are included in the Best of the Best according to the Annual National Customer Service Benchmarking conducted by First Quartile Consulting. We ranked in the top quartile in almost every category.

BEST OF **THE BEST**

Overall Cost	Speed of Answer
Billing Accuracy	Write-Offs
Customer Service Rep. Availability	First Contact Resolution

WE ARE **SUSTAINABLE**

Ensuring we provide a sustainable business model for our customers, means we develop or maintain practices that support the three P's - People, Planet, and Profit. We do this in many ways.

CUSTOMER **CHOICES**

All our customers are unique and have different needs when it comes to powering their lives. Fortunately, we live in a world where customizing the customer's experience is possible and becoming more commonplace every day. Lakeland Electric knows this and works to provide our customers with choices – choices in how they consume, communicate about, and pay for electricity. Ultimately our customers have choices in how they power their lives.



8 WAYS TO PAY

KIOSK

AUTOMATED PHONE SYSTEM

AUTOMATIC BANK DRAFT

UNITED STATES POSTAL SERVICE

WEBSITE PAYMENT (No Fee)

IN-PERSON LOCATIONS

WEBSITE PAYMENT (With Fee)

LAKELAND ELECTRIC DROP BOX



OUTAGE NOTIFICATION SERVICES

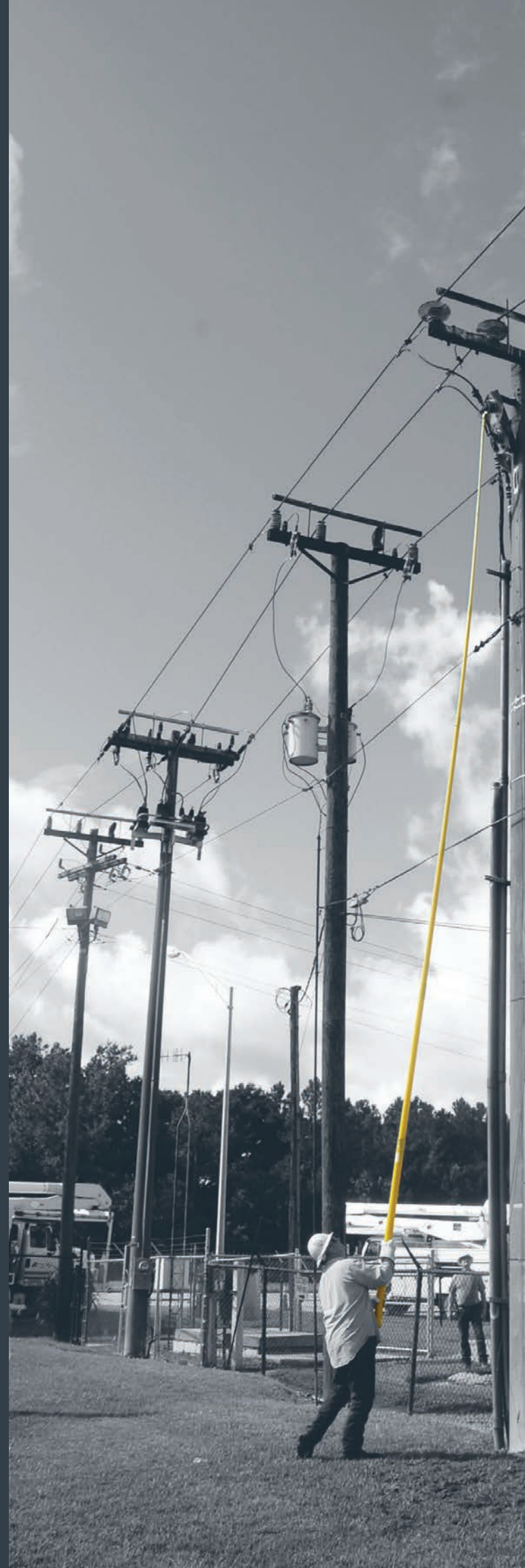
Thanks to Smart Meters, Lakeland Electric can notify customers if they are experiencing an outage in their home via text, email, or phone. The service not only personally advises customers when their home is out of power, but also reports the anticipated length of the outage and provides confirmation once the power has been restored.

Additionally, for significant outages that impact more than 5% of our territory or critical infrastructure (e.g. traffic signals on a high-volume roadway), we post notices on social media (Facebook and Twitter).

Our customers are accustomed to reaching out to us to report their outage and we encourage them to phone us about their outage if there is important information they need to relay to our crews. We have a dedicated Outage Notification Phone Number that allows customers to communicate with us about a power outage 24/7. That number is (863) 834-9535 during normal business hours, 7:30 a.m. - 8:00 p.m. and (866) 834-4248 after hours.

Average
Annual Number
of Outages
per Customer:
1.25

Average
Length of
Outages:
1 hour





ELECTRIC PRICE PLANS

It is important to us that our customers become more involved and knowledgeable about the way they personally consume energy and how their energy habits affect their costs – for better or worse. One way Lakeland Electric is providing our customers choices and ways to save is with price plans. Like how cell phone companies offer different price plans that best fit their customer’s personal phone usage, Lakeland Electric offers different electricity price plans for our customers.

There are three residential customer price plans:

STANDARD

Most Lakeland Electric customers are billed for their electricity usage based on the Standard Price Plan. On this price plan, customers who use 1,000 kilowatt hours (kWh) or less in one billing period pay 5.099¢ per kWh. Customers who use 1,001 to 1,500 kWh in one billing period pay 5.660¢ per kWh for any additional kilowatts over 1,000 kWh. And, customers who use more than 1,500 kWh in one billing period pay 6.221¢ per kWh for any additional kilowatts over 1,500 kWh.

SHIFT TO SAVE

If you can “shift” some of the power you use to a different time of day, this new pricing plan will give you an opportunity to save money. The Shift to Save Price Plan features three different Monday-through-Friday “pricing periods” – Off-Peak (lowest cost – 2.331¢ per kWh), Mid-Peak (mid-cost – 7.736¢ per kWh) and On-Peak (highest cost – 12.893¢). In addition, weekends and holidays are Off-Peak. Your bill will be calculated according to how many kilowatt hours (kWh) you use during each of those pricing periods.

DEMAND

With the Demand Price Plan you can save money based on the time of day you use electricity and by avoiding the use of major appliances at the same time. Customers pay a lower price for their electricity (2.232¢) but incur a demand charge (\$5.60 per kW) each billing period for their highest 30-minute kW measurement during the peak period. To understand the residential demand rate, you need to understand the differences between energy and demand:

Energy = the amount of power consumed over a period (kWh). This is like your car odometer measuring how far you have traveled.

Demand = the power needed at a point in time (kW). This is like your car speedometer measuring how fast you are traveling.

ReEnergize **LAKELAND**

Re-launched in Fall 2016, ReEnergize Lakeland is a rebranded educational campaign about customer conservation programs. Keeping our customers' electricity costs low is important to us. And it's important to our customers too. The ReEnergize Lakeland campaign educates our customers on ways they can save money by conserving electricity and improving the environment all at the same time. The three focuses of ReEnergize Lakeland include energy efficiency, solar power, and trees.

A few examples how customers can ReEnergize Lakeland:

NEW APPLIANCE REBATE

If customers buy a new appliance built to save electricity, they can get a credit on their electricity bill from \$40 to \$200. And, by using appliances that save energy, their electric bills can be lower every month. Refrigerators, dishwashers, or clothes washers are all included in the rebate.

FREE HOME ENERGY AUDIT

By having a free home-energy inspection done by a Lakeland Electric professional energy analyst, customers can learn ways to improve their home and save electricity. The analyst will inspect your home, share energy-saving recommendations, as well as personally show you how to use our website's energy toolset.

NATIONAL ARBOR DAY ENERGY-SAVING TREES® PROGRAM

By planting the right tree in the right place (not under power lines and in the sun), you can reduce your energy use by up to 20% each year. Trees also improve air and water quality, help relieve stress, and make yards more enjoyable. Lakeland Electric partnered with the National Arbor Day Foundation to provide our customers with free trees.





COMMUNITY GIVING

Launched in the Summer of 2016, our Community Giving Program encourages relationships with organizations within the community that positively impact our customers' lives. State of Florida-registered charitable organizations located within the Lakeland Electric territory and serving the public within the territory are encouraged to submit an application for a \$1,000 grant.

Last year, 30 not-for-profit organizations were awarded grants for the great work they do to improve our community. Charity organizations like these make Lakeland a better place to live and Lakeland Electric is proud to help support them as they build a stronger community.

LOCAL JOB PROVIDER

Lakeland Electric is over 110 years old. That longevity has provided lifelong, stable careers to many residents of our community and the tradition continues today. As a department of the City of Lakeland, Lakeland Electric provides opportunities for many different professions, including engineering, customer service, and accounting, to name just a few. And being able to boast having employees that live in the same community they serve brings a level of accountability and pride not typically found elsewhere.

KEY FINANCIAL TERMS

Operating Revenues: Revenues that are earned as a result of the utility's business operations

Operating Expenses: Expenditures that the utility incurs as a result of business operations

Depreciation: Allocation of cost of asset over its useful life

Investment Income: Earnings on the utility's investments

Dividend: Yearly payment from the utility to city government based on MWh consumption

Asset: Resources that the utility owns

Liability: The utility's legal debts or obligations

Net Position: The difference between the utility's assets and deferred outflows, and liabilities and deferred inflows

Deferred Inflows/Outflows: Flows of resources into and out of the utility during the fiscal year that are related to future periods

OPERATING REVENUES

Sale of energy - retail

Sale of energy and capacity sales - wholesale

Other electric operating revenue

OPERATING EXPENSES

Fuel and purchased power

Non fuel expenses

Depreciation (net)

OPERATING INCOME

NON-OPERATING ACTIVITY

Investment and other income

Interest and amortization

Transfer to other funds

CHANGE IN NET POSITION

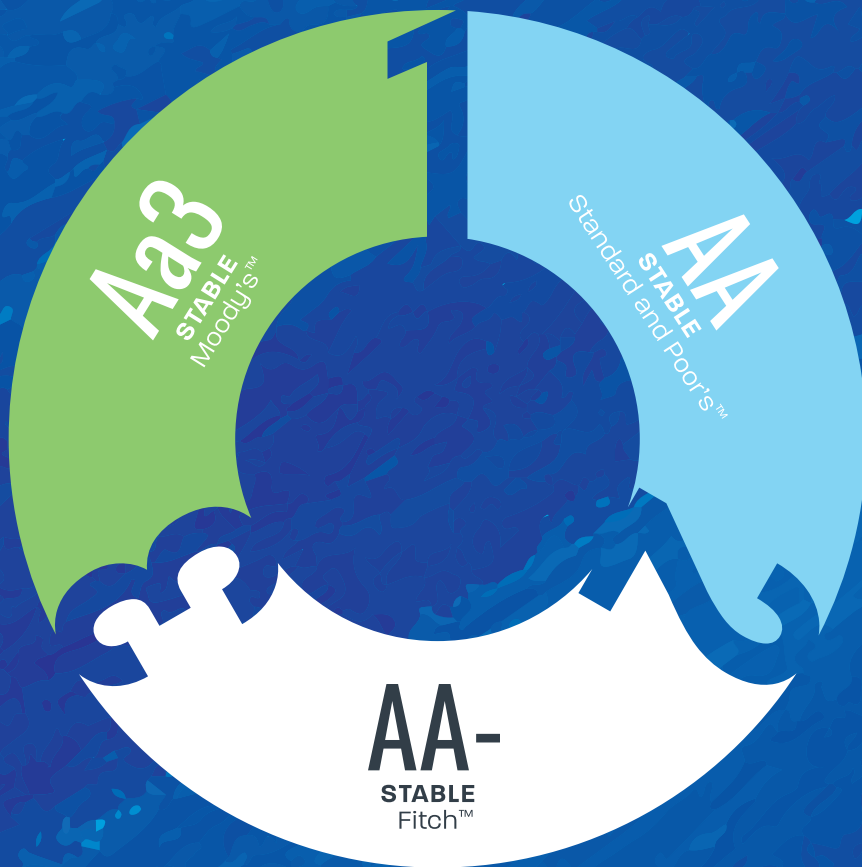
OVERVIEW

Condensed Statement of Revenue, Expenses and Changes in Net Position
September 30, 2012 through 2016 - In thousands

FINANCIAL
ACTIVITY

2016	2015	2014	2013	2012
\$283,302	\$296,955	\$295,627	\$281,798	\$270,211
5,789	5,521	3,840	13,372	13,606
7,462	7,027	6,870	6,886	6,520
296,553	309,503	306,338	302,056	290,337
109,466	124,528	134,396	135,104	124,143
83,364	89,451	81,469	77,257	77,137
41,784	40,734	39,482	37,817	36,886
234,614	254,713	255,347	250,178	238,166
61,939	54,790	50,991	51,878	52,171
6,795	4,227	15,549	748	8,597
(18,385)	(18,787)	(21,578)	(22,737)	(26,447)
(30,678)	(29,506)	(25,517)	(24,095)	(24,201)
(42,268)	(44,066)	(31,546)	(46,084)	(42,051)
\$19,671	\$10,725	\$19,444	\$5,794	\$10,120

Operating revenues decreased \$12.9 million or 4% compared to 2015 reflecting lower fuel revenues of \$17.3 million. (Fuel revenue is a pass-through and its decline was associated with reduced fuel and purchased power costs.) Excluding fuel, retail revenues increased \$3.6 million as retail megawatt hours (MWh) sales grew 2% year-over-year due to warmer weather and a 1.4 percent increase in average customer count. Lakeland Electric's non-fuel operating expenses decreased by \$5.7 million primarily due to a \$5.1 million reduction in the actuarially determined pension liability. Fuel and purchase power expenses decreased by \$15.1 million in 2016 due, in large part, to a decline in natural gas prices. For Fiscal Year 2016, the overall financial condition of Lakeland Electric improved by \$19.7 million. Operating income was \$61.9 million in 2016, up from \$54.8 million the previous year.

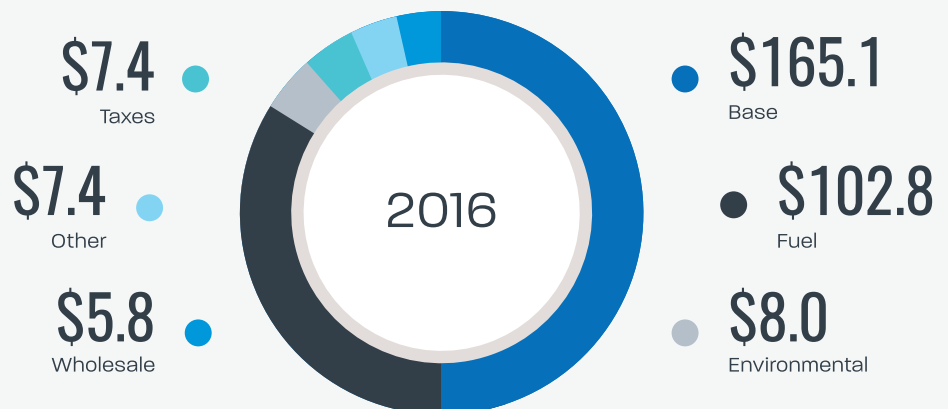


CREDIT RATINGS

ASSETS
Current assets
Utility plant, net
Other noncurrent assets
DEFERRED OUTFLOWS OF RESOURCES
LIABILITIES
Current liabilities
Other noncurrent assets
DEFERRED INFLOWS OF RESOURCES
NET POSITION
Net assets invested in capital assets, net of related debt
Unrestricted
CHANGE IN NET POSITION

REVENUE SOURCES

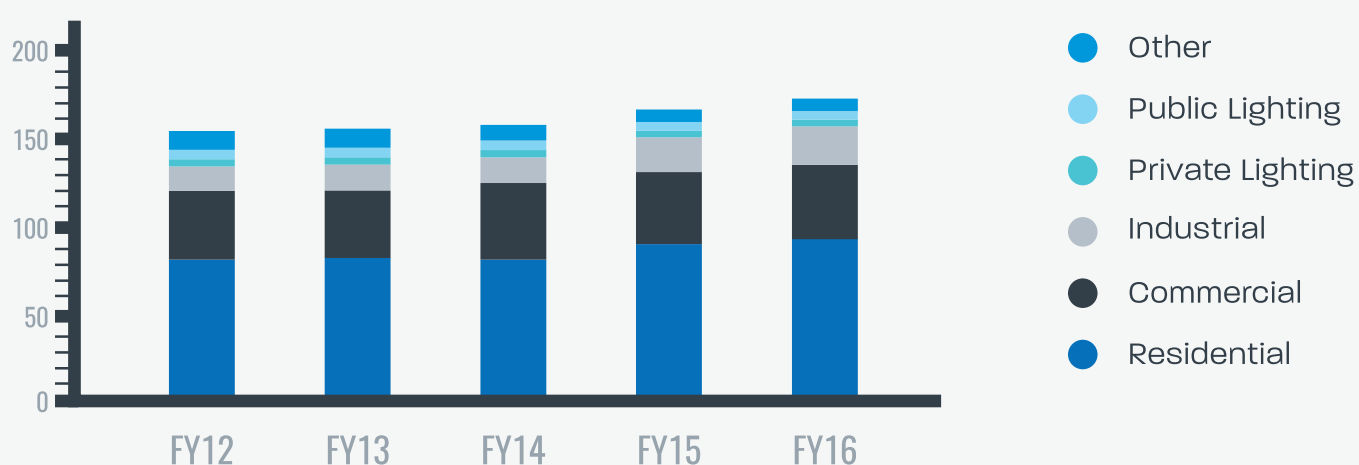
in millions

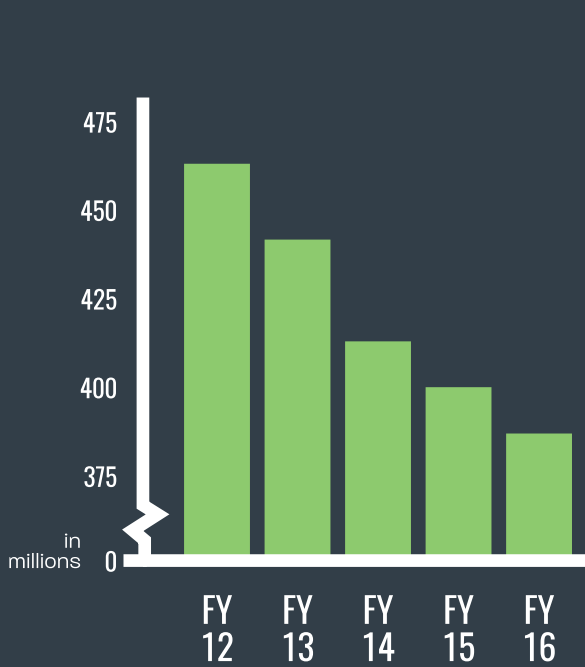


FINANCIAL ACTIVITY

Condensed Statement of Net Position September 30, 2012 through 2016 - In thousands

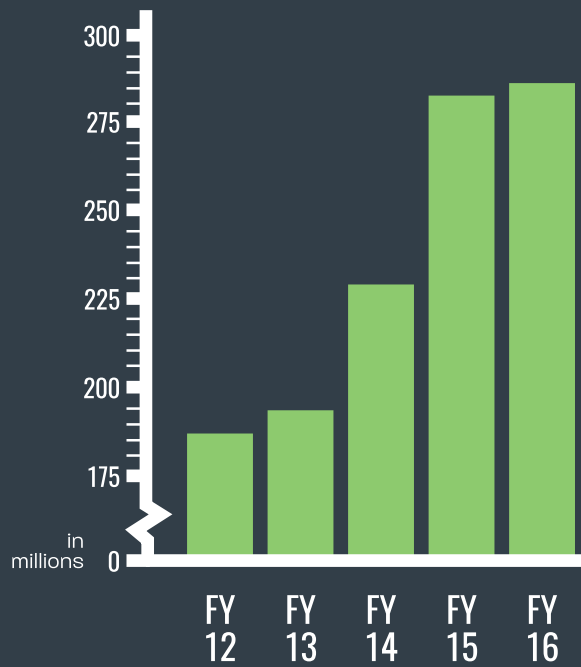
2016	2015	2014	2013	2012
\$165,568	\$150,372	\$147,139	\$153,401	\$168,382
656,497	666,644	675,503	678,435	682,761
96,469	86,158	83,799	86,430	90,745
918,534	903,174	906,441	918,266	941,888
92,266	70,498	64,307	57,681	82,993
49,637	42,995	59,337	88,981	114,097
560,461	550,149	559,938	505,548	535,035
610,098	593,144	619,275	594,529	649,132
67,045	66,541	54,182	47,629	47,599
211,864	203,263	192,567	164,258	140,206
121,793	110,724	104,724	169,531	187,944
\$333,657	\$313,987	\$297,291	\$333,789	\$328,150





LONGTERM DEBT

At the end of 2016, the amount of longterm debt outstanding totaled \$387.7 million. In February 2016, \$95 million of floating rate debt was refinanced reducing the percentage of variable rate debt outstanding from 49% to 26%.

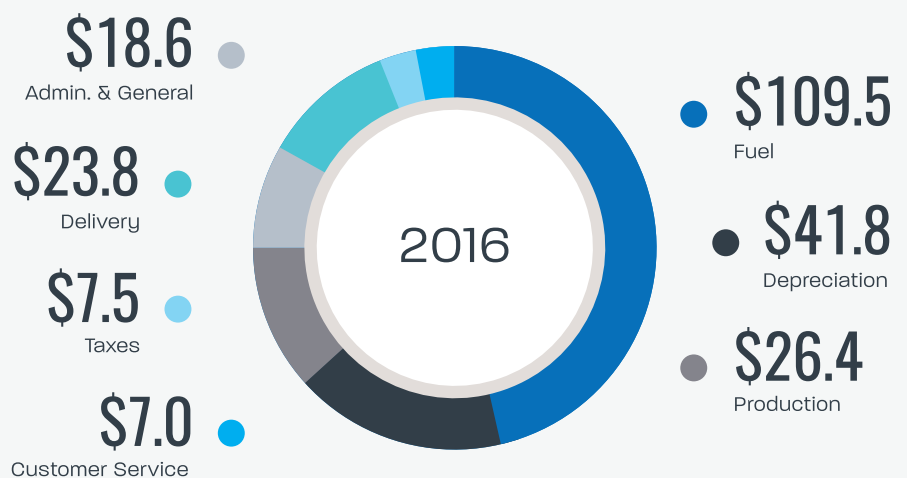


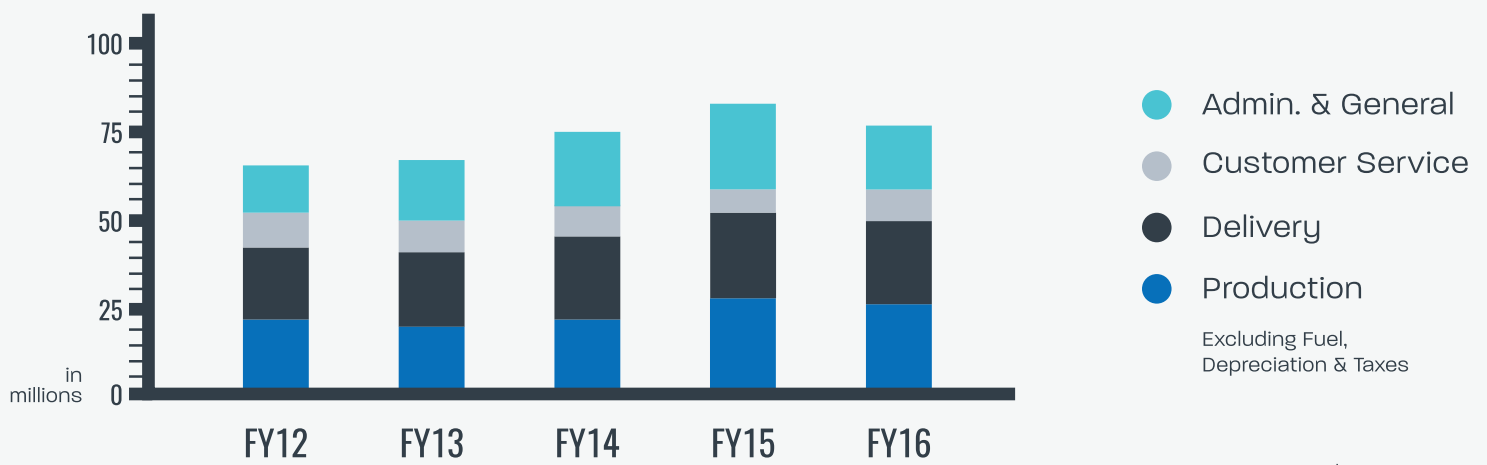
DEBT SERVICE COVERAGE

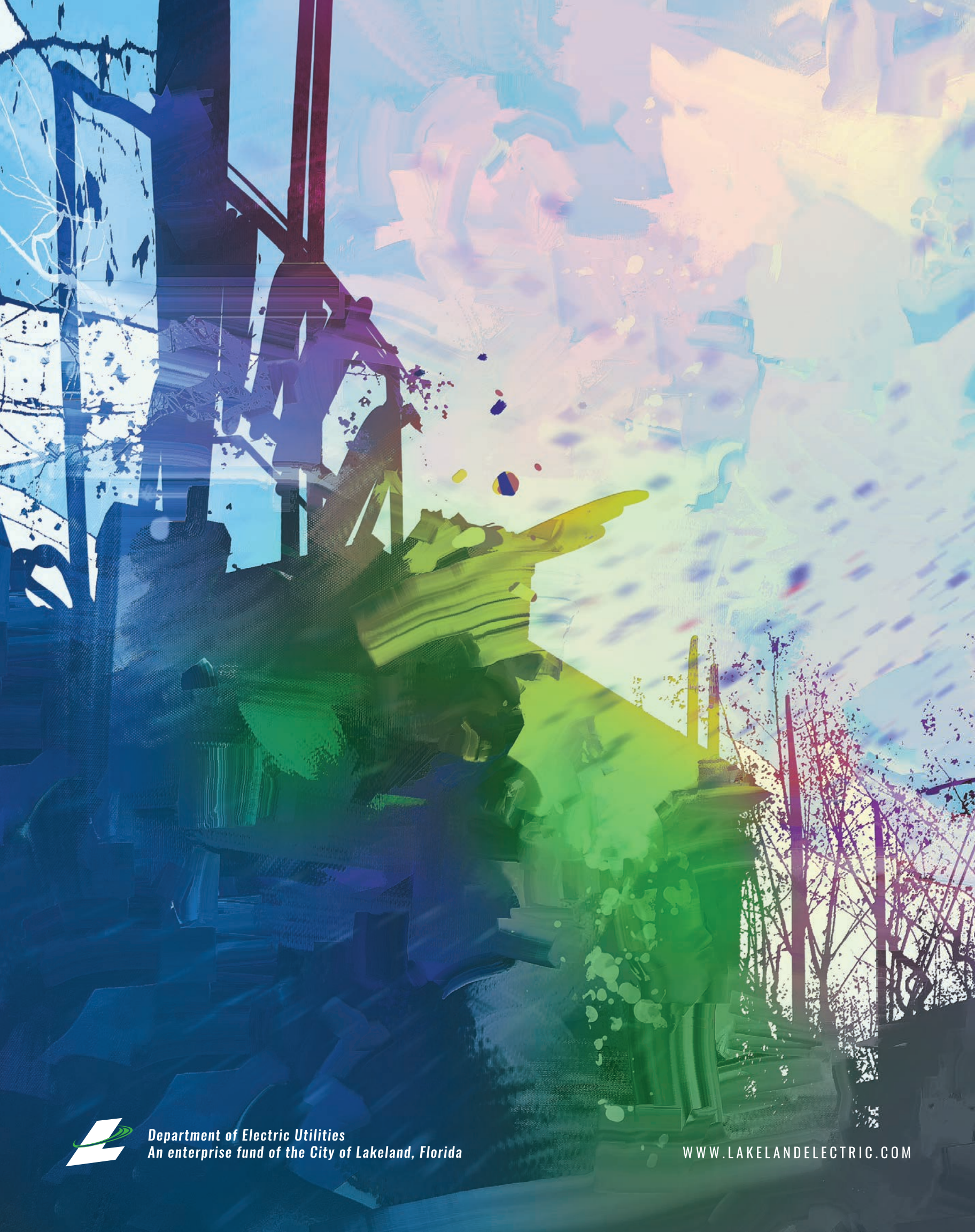
This ratio is a measurement that demonstrates an entity's ability to pay its annual debt service made up of both principal and interest. Lakeland Electric's bond covenant requires debt service coverage of at least 150%, but through a conservative approach to finances, an internal benchmark of 200% has been long established. Debt Service coverage exceeded the benchmark at 287% in 2016.

EXPENSE BREAKDOWN

in millions







Department of Electric Utilities
An enterprise fund of the City of Lakeland, Florida

WWW.LAKELANDELECTRIC.COM