



Florida Municipal Power Agency

Nicholas P. Guarriello
General Manager and CEO

February 25, 2014

BY EMAIL

Eric E. Silagy
President
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, Florida 33408

SUBJECT: FPL'S AUGUST 20, 2013 OFFER LETTER

Dear Eric:

This letter follows our discussions on Tuesday and Wednesday of last week concerning your letter of August 20, 2013, that communicated FPL's offer to FMMPA with regards to FPL's proposed purchase of the City of Vero Beach electric utility system (the Offer). I also discussed your Offer with Sam Forrest on September 19, November 7, and December 6, by telephone.

1. Overview

To begin with a summary, as you know, FMMPA does not need the capacity and energy associated with Vero Beach's Stanton and Stanton II Projects power entitlement shares for the three year period (January 1, 2015 to December 31, 2017) that FPL has requested the FMMPA All-Requirements Project to consider purchasing that capacity and energy from Orlando Utilities Commission (OUC). And, there is limited value to FMMPA in the other terms of FPL's Offer. Some clarity is needed, however, with regard to the Offer and the overall structure of FPL's proposed purchase of Vero's electric utility system: this three-year power purchase is just one component of many of the overall deal that must be addressed by Vero Beach.

Vero Beach is a participant in four of FMMPA's power supply projects: the All-Requirements Power Supply Project (the ARP), St. Lucie, Stanton, and Stanton II Projects. The controlling contracts for each of these projects—identical for Vero Beach and each of the other project participants—prohibits Vero Beach from selling its electric utility system to another entity, unless it is a municipal electric utility that is eligible to take an assignment of those contracts. FPL is not an eligible municipal electric utility. Vero Beach's contracts, then, must be amended or certain provisions waived, which requires the approval of many third parties (bond trustees, bond insurers, rating agencies, bond counsel, consulting engineer, etc.); unanimous waivers and consents from each of the 20 FMMPA members that

are participants in those same projects; and, lastly, the approval of FMMPA. In addition, Vero Beach has stranded cost obligations that must be paid on the withdrawal date from the ARP, currently established by contract as October 1, 2016; and there are contingent liability obligations for the St. Lucie, Stanton, and Stanton II Projects that Vero Beach must also address. None of this multitude of issues is addressed by FPL's Offer and, thus, still need to be addressed by the City of Vero Beach.

2. FPL's Offer

In the Offer, FPL has asked FMMPA to consider purchasing from OUC the capacity and energy associated with Vero Beach's Stanton and Stanton II Projects power entitlement shares for a period not to exceed three years and not to extend beyond December 31, 2017. Vero Beach and OUC have entered into an agreement for the assignment of Vero Beach's interests in the St. Lucie, Stanton, and Stanton II Projects to OUC and, thus, FMMPA understands that FPL's Offer assumes this transfer agreement and assignment to OUC is valid and would require FMMPA to enter into an up to three-year purchase agreement with OUC.

Below I respond to each of the three business considerations in your Offer. However, as we have discussed, several of the terms stated in the Offer are also in need of correction and clarification. (The numbering below corresponds to the numbering in the Offer.)

1. FMMPA's staff and attorneys are prepared to recommend to the FMMPA Executive Committee to fill-in the blank in FPL's Offer with the sum of \$52 million, if all other terms can be agreed to. However, we have discussed, and you have agreed, that FMMPA will not terminate the existing power sales and project support contracts between Vero Beach and FMMPA for the St. Lucie, Stanton, and Stanton II Projects. Instead, those contracts must be properly assigned to OUC, and the form of the transfer agreement and assignment must be acceptable to FMMPA. The form of transfer agreement and assignment used by FMMPA on two other occasions were provided to the Vero Beach transactional attorneys on May 15, 2012. The existing Vero Beach-OUC transfer agreements and assignment are not acceptable, and FMMPA's attorneys have communicated to Vero Beach's transactional attorneys why the current documents are not acceptable. I understand Vero Beach's transactional attorneys have committed to re-work the transfer agreements and assignments, but FMMPA's attorneys have not yet received acceptable, revised documents. Additionally, the unanimous consents and waiver of the 20 other FMMPA municipal utilities in the ARP, St. Lucie, Stanton, and Stanton II Projects must still be obtained for Vero Beach to have its project contracts amended to permit the sale of its electric utility system to FPL and to address Vero Beach's contingent liability obligations in a manner different than what is required by the contracts.

I am in agreement that if we reach a deal on the power purchase from OUC and the closing is after January 1, 2015, the payment to FMMPA will be reduced proportionately each month that the up-to three-year term is reduced to less than three years.

Ultimately, though, FMMPA's acceptance of the Offer to buy the capacity and energy associated with Vero Beach's Stanton and Stanton II Project power entitlement shares from OUC for up-to three-years is subject to the agreement and approval of the FMMPA Executive Committee as to the payment to FMMPA and the terms of the agreements needed to effectuate FMMPA's purchase.

As you know, I called Sam Forrest and communicated my proposal for the up-to three-year purchase specifically because FPL asked for the courtesy of knowing the number by December 6. You and I also agreed that we did not want to negotiate this deal in the press, so I was careful to only communicate FMMPA's number to Mr. Forrest orally. I believe that FMMPA has acted in accord with your requests and our agreement.

2. Also pursuant to my conversation with Mr. Forrest, FMMPA is interested in FPL's offer of an up-to 100 MW option in the proposed Turkey Point Units 6 and 7 nuclear plants on terms that are similar to those previously granted by FPL to OUC. Mr. Forrest and I discussed the changes that FMMPA would require to the OUC form of option agreement. Enclosed with this letter is a redline mark-up of the OUC form of option agreement with FMMPA's suggested changes for FPL's consideration. Based on my earlier discussion with Mr. Forrest, I do not expect any of the suggested changes to be a concern for FPL.

3. Finally, as I discussed with Mr. Forrest, I do not see any value at this time in FPL's offer to resell a portion of its firm transmission capacity on the Southern Company transmission system.

3. The Road Ahead

There is a long path yet to be traveled with FMMPA for FPL and Vero Beach to complete its proposed purchase of the Vero Beach electric utility system. Even if terms can be reached on the Offer—as I have outlined above—that is just one component of many of the overall transaction as it involves FMMPA. These steps have been identified several times to the Vero Beach transactional attorneys.

It has been reported that you have said: "I don't see any hurdle that can't be overcome by Jan. 1." On the contrary, I and FMMPA's general counsel have said to you it will be very difficult to achieve a closing by the end of this year.

At this point, there is not a binding deal of any sort involving FMMPA. Even if Vero Beach and FPL can amend their agreements to accommodate the substantial change of a possible ratepayer surcharge, as has been reported in the press, and the entire transaction is approved in another voter referendum, which the city attorney has been reported to say is necessary, no final agreements with OUC and FMMPA have yet been achieved.

For a closing on the sale of the Vero Beach electric utility system to FPL to occur on January 1, 2015, each of Vero Beach's project contracts for the ARP, St. Lucie, Stanton, and Stanton II Projects must be amended or waived by that date. This requires the

unanimous consent and waiver of each of the 20 FMMPA members that are participants in those projects. As the project contracts are the security for the outstanding bonds of each of the projects, the outside approvals of each of the bond trustees, bond insurers, rating agencies, bond counsel, consulting engineers, etc., must also be obtained to provide for the protection of FMMPA's bondholders and the other project participants.

FMMPA's project contracts are the financial strength of FMMPA and they cannot be waived or amended by FMMPA or the project participants without substantive outside involvement of those in the financial community that protect the interests of FMMPA's bondholders. Far from being "a new set of roadblocks that was thrown up," as you are reported to have said, FMMPA's attorneys have repeatedly advised Vero Beach of these contract limitations, beginning with FMMPA's first discussions with Vero Beach in August 2010.

In addition to achieving an amendment or waiver of the project contracts, Vero Beach also has stranded costs obligations that must be satisfied for the ARP and contingent liability obligations that must be met for the St. Lucie, Stanton, and Stanton II Projects.

Pursuant to section 29 of the All-Requirements Power Supply Project Contract (the ARP Contract), upon its withdrawal date Vero Beach must pay all stranded costs that are or could be incurred by the remaining project participants because of its withdrawal. We have discussed a stranded cost calculation for Vero Beach's portion of any termination payment for the forward starting Taylor County project interest rate swaps, if a closing on the sale of the Vero Beach electric utility system occurs before October 1, 2015. Even if a closing of the sale of the Vero Beach electric utility system occurs after that date, Vero Beach will still be liable under the ARP Contract for its share of any Taylor swaps termination payment. There are also other possible stranded costs, which FMMPA is currently evaluating including those relating to the Vero Beach power plant site. FPL's Offer does not address these stranded cost obligations.

For the St. Lucie, Stanton, and Stanton II Projects, Vero Beach must remain contingently liable for all its obligations after assignment of its contracts to another FMMPA member, unless that assignment is made to another FMMPA member who is also purchasing Vero Beach's electric utility system. As Vero Beach has negotiated for FPL to buy its system and OUC to take the assignment of its St. Lucie, Stanton, and Stanton II Projects interests, Vero Beach cannot meet its contingent liability obligations under the existing contracts. While Vero Beach's transactional attorneys have made several suggestions for how to address Vero Beach's contingent liabilities, that work-around proposal has not been provided to FMMPA in detail. If the details can be fleshed out and ultimately described in a way that FMMPA believes will be satisfactory to the bond trustees, bond insurers and other outside parties, then that outside party approval process can be started. FPL's Offer also does not address Vero Beach's contingent liability obligations.

In short, FPL's Offer does not nearly address all of the issues with FMMPA that must be addressed by Vero Beach to sell its electric utility system to FPL. While FMMPA has committed to Vero Beach to diligently work towards achieving the sale of its electric utility

system to FPL, there are a multitude of issues that need to be addressed that, simply put, have not yet been addressed by Vero Beach.

Finally, if FPL would prefer to pay OUC to take the capacity and energy from the Vero Beach Stanton and Stanton II Projects power entitlement shares immediately after the closing between FPL and Vero Beach, FMPA has no objection to FPL and OUC striking that deal.

4. Conclusion

I feel that FMPA must be clear in just how far away Vero Beach, FPL, FMPA, and OUC are from completing a deal. Recent press reports appear to indicate that FPL has agreed to FMPA's number and, thus, all necessary steps have been completed and the Vero Beach electric utility system will be sold to FPL by year's end. That characterization is very optimistic.

Despite FMPA's significant efforts to date, most of the substantive issues have yet to be addressed meaningfully by Vero Beach and are not covered by FPL's Offer. We have shared these exact concerns with Vero Beach officials and representatives multiple times.

The proposed FMPA payment of \$52 million is not a windfall for FMPA's ARP participants. Instead, it has been calculated to cover FMPA's payments to OUC for the power from the Stanton and Stanton II Projects that includes the risk and uncertainty they would absorb to purchase that power from OUC, which FMPA does not need.

All of this being said, FMPA remains committed to working with our member utilities, OUC and Vero Beach, and FPL to achieve whatever objective that Vero Beach ultimately decides on.

Sincerely,



Nicholas P. Guarriello
General Manager and CEO

NPG:su
Enclosure

cc: Frederick M. Bryant
Wade Litchfield
Sam Forrest
Jim O'Connor
Ken Ksionek