Florida Municipal Power Agency

Nicholas P. Guarriello
General Manager and CEO

MEMORANDUM

TO: Mike New, City of Alachua
George Long, City of Bartow
Vince Ruano, City of Bushnell
Lee Garner, City of Chattahoochee
Robert Hunzinger, City of Gainesville, Gainesville Regional Utilities
Barbara Quiñones, City of Homestead
James Welsh, Kissimmee Utility Authority
Paul Kalv, City of Leesburg
Charles Revell, City of Mount Dora
William Ray Mitchum, Utilities Commission, City of New Smyrna Beach
Matt Brower, City of Ocala
Ken Ksionek, Orlando Utilities Commission
Mike Wade, City of Quincy
Oel Wingo, City of Williston

FROM: Nick Guarriello, General Manager and CEO

DATE: October 17, 2012

SUBJECT: REVISED AGREEMENT TO REPRESENT FLORIDA CITIES IN SETTLEMENT DISCUSSIONS WITH PROGRESS ENERGY FLORIDA

As you are aware, FMPA is working to enter into an agency authorization agreement (the "Agreement") with each of the cities listed above (individually, a "Florida City," and collectively, the "Florida Cities") for purposes of acting as the Florida Cities' agent in settlement discussions with Progress Energy Florida ("PEF") relating to the steam generator replacement and resulting containment building delamination and ongoing outage at Crystal River Unit 3 ("CR3"). On October 2, 2012, FMPA provided each of the cities listed above with a draft of the Agreement (the "Draft Agreement"). During the past two weeks, we have attempted to contact each of the cities individually (we have to date been unable to reach Bartow) and have received comments from most on the Draft Agreement. Enclosed for your review is a revised version of the Agreement that is based on the comments we have received. We have provided clean and redlined (against the Draft Agreement) copies of the Agreement.

The primary changes that have been made to the Agreement are as follows:

- For purposes of reaching a settlement agreement with PEF, FMPA may from time to time communicate information to the Florida Cities that is protected under that certain Confidentiality Agreement with respect to Settlement Negotiations by and between Florida Power Corporation d/b/a Progress Energy Florida and Florida Municipal Power Agency, on behalf of itself and the named "Florida Cities" in the Crystal River 3 Tolling

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Agreement between FMPA and PEF, effective as of August 13, 2012, as amended ("the Confidentiality Agreement"). To assist the Florida Cities in understanding their responsibilities and to protect them and FMPA, we have attached a copy of the Confidentiality Agreement as Exhibit A to the Agreement and have incorporated the Confidentiality Agreement into and made it a material part of the Agreement. With this language, each Florida City agrees to be bound by the terms and conditions of the Confidentiality Agreement (and any other applicable confidentiality agreements). Rest assured, the Confidentiality Agreement takes into account the limitations on confidential information imposed on the Florida Cities under the Florida Sunshine Law.

- Any Florida City can participate directly in the negotiations between FMPA and PEF to the extent that issues unique to that city arise; however, in order to protect the collective interests of the Florida Cities, each Florida City agrees not to independently negotiate with PEF regarding the Crystal River 3 steam generator replacement project and resulting delamination and outage prior to the termination of this agreement.

- To ensure that any required notices find the appropriate person(s) in a timely manner, we have added a "Notices" provision to the agreement. Please in the signed Agreement write in the name(s) and email address(es) of the individual(s) from your utility or city to whom such notices should be sent or provide us with the information and we will add it to your executed Agreement. In order to prevent delays when a timely response is needed from your city or utility, FMPA recommends that at least two individuals from your utility or city be designated to receive notices.

- We have received comments from some cities looking for a general indication of the order of magnitude of potential expenses for this effort. While we are unable to predict how much this effort will ultimately cost, in order to address such concerns, we have added an initial cap on total costs and expenses for the collective Florida Cities of $250,000.[1] FMPA will provide notice to each of the Florida Cities when and if it reasonably believes that it has incurred costs and expenses equal to 80% of the $250,000 cap, and FMPA will stop incurring additional costs and expenses once it reaches the cap until advance written authorization to exceed the cap is received from the Florida Cities.

- FMPA has agreed to provide the Florida Cities with updates on the progress of the negotiations no less than monthly.

[1] The $250,000 cap is based on the approximate total of costs and expenses that were incurred by FMPA on behalf of itself and the cities it represented in reaching the previous settlement agreement with PEF concerning CR3 in 2002.

- Paragraph 3 revises the language in the Draft Agreement concerning amendments to the cost allocations among the Florida Cities. These revisions should provide clarity on the process for FMPA to amend Exhibit B to the Agreement and the impact of such amendment on the Florida Cities.[2] Paragraph 3(a) provides the procedure for FMPA to amend Exhibit B due to better information on actual or potential damages becoming known to FMPA (e.g., PEF provides additional reimbursement to purchasers from insurance monies received, or PEF makes a repair vs. retire decision on CR3). In such cases, FMPA will provide a proposed Exhibit B amendment to the Florida Cities no less than 15 days before the effective date of such amendment. Paragraph 3(b) provides the procedure for FMPA to amend Exhibit B if a Florida City provides its notice to terminate its Agreement. Under such a scenario, FMPA will provide the remaining Florida Cities with a proposed Exhibit B amendment as soon as practicable after receipt of such notice; however, due to timing issues, this may be less than 15 days prior to the effective date of the amended Exhibit B. In that case, the effective date of the amended Exhibit B will be the same as the termination date of the departing Florida City.

- Any party may terminate the Agreement upon 15 days prior notice, and the Agreement will automatically terminate if PEF terminates negotiations with FMPA.

- The Florida Cities will have access to any data, information, analysis and reports that FMPA makes or receives in connection with the CR3 negotiations, provided that such data and information may be subject to the Confidentiality Agreement or other applicable confidentiality agreements.

- The Agreement does not permit FMPA to bind the Florida Cities or act as their agent for any other purposes, except as described in the Agreement.

- We have revised the proposed cost allocations shown in Exhibit B to the Agreement based on information recently received from PEF relating to insurance-related refunds to those wholesale purchasers that no longer purchase requirements energy from PEF.[3] The cost allocations shown in Exhibit B assume that all of the Florida Cities sign their respective Agreements. Based on the recent individual discussions with each of the Florida Cities, we believe this Agreement covers all concerns raised by the Florida Cities and that all of the Florida Cities intend to enter into the Agreement. Additionally, as you may be aware, we are in discussions with Winter Park concerning joining the group. If Winter Park decides to join, the cost allocations to each of the Florida Cities shown in Exhibit B will decrease slightly.

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[2] Exhibit B was labeled as Exhibit A in the Draft Agreement.

[3] Bartow, the FMPA All-Requirements Power Supply Project, and Quincy each had full-requirements or partial-requirements power purchase agreements with PEF that terminated at the end of 2010. As such, these cities have a limited claim to actual or potential damages compared to the other Florida Cities.

We believe that we have taken into account the comments from those cities that have provided them. Please contact me as soon as possible if your city plans to enter into this Agreement with FMPA or just return a signed Agreement. As mentioned in my October 2, 2012, letter, we would appreciate your response as soon as possible, as discussions have already commenced with PEF, and we need to begin informing you of the information from those meetings and the information received to date. As soon as we receive your signed agreement, we will contact you to provide you with the current status of the discussions.

Yours sincerely,

Nicholas P. Guarriello

Nicholas P. Guarriello
General Manager and CEO

cc: Fred Bryant, FMPA
Jody Finklea, FMPA
Jason Wolfe, FMPA
Dan O'Hagan, FMPA
Ken Konkol, City of Homestead
Larry Mattern, Kissimmee Utility Authority
Tim Beyrle, Utilities Commission, City of New Smyrna Beach
Larry Novak, City of Ocala
Chris Browder, Orlando Utilities Commission