



Florida Municipal Power Agency

Nicholas P. Guarriello  
General Manager and CEO

June 14, 2013

Via Email

Re: Increased FMPA Costs and Expenses for Crystal River Unit 3 Negotiations

Mr. Paul Kalv  
City of Leesburg  
501 W. Meadow St.  
Leesburg, FL 34749

Dear Paul:

As you know FMPA has been negotiating with Duke Energy Florida, Inc. ("Duke") on behalf of the Crystal River Unit 3 ("CR3") joint owners and Duke municipal wholesale customers (collectively the "Florida Cities"<sup>1</sup>) regarding the failed CR3 steam generator replacement project, the resulting extensive containment building delamination, extended outage, and forced retirement of the plant. As we have previously discussed, there are numerous complicated legal and technical issues involved in this matter. Despite this, the negotiations are continuing and I believe there is a possibility that FMPA may be able to settle some or all of the Florida Cities' potential claims against Duke.

FMPA has entered into agreements with each of the Florida Cities, by which each has designated FMPA as its agent for purposes of these settlement negotiations (the "Agency Agreement"). Pursuant to the Agency Agreement, FMPA's total costs and expenses relating to the CR3 negotiations are not to exceed \$250,000 without advance written consent of the Florida Cities, and FMPA is required to provide notice when actual costs and expenses reach 80% of \$250,000 (i.e. \$200,000).

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<sup>1</sup> The Florida Cities are: City of Alachua; City of Bartow; City of Bushnell; City of Chattahoochee; Gainesville Regional Utilities; Town of Havana; City of Homestead; Kissimmee Utility Authority; City of Leesburg; City of Mount Dora; City of Newberry; Utilities Commission, City of New Smyrna Beach; City of Ocala; Orlando Utilities Commission; City of Quincy; City of Williston; and FMPA All-Requirements Power Supply Project.

The purpose of this letter is to: (1) notify you that FMPA has, to date, incurred \$190,042.66<sup>2</sup> (i.e. approximately 76% of the \$250,000 limit) in CR3 settlement negotiation related costs, and (2) request written authority to incur up to an additional \$250,000 in costs for our ongoing settlement efforts, upon the condition that FMPA (a) not exceed the additional \$250,000 without the Florida Cities' consent and (b) will provide the Florida Cities with notice when FMPA reasonably believes that it has incurred costs equal to 80% of that amount.

If you agree to the additional \$250,000 spending authority, subject to the conditions listed in the preceding paragraph, please execute and return the authorization form included with this letter to FMPA.

Also Included with this letter is a copy of Exhibit B of the Agency Agreement, which indicates each of the Florida Cities' proportional cost responsibility.

Very truly yours,



Nicholas P. Guarriello  
General Manager and CEO

Enclosures (2)

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<sup>2</sup> The Florida Cities have paid a total of \$158,570.73 to date. On June 11, FMPA issued invoices for an additional \$31,471.93 of incurred costs, resulting in a total of \$190,042.66.

**Authorization for Increased FMPA Costs and Expense**

Leesburg authorizes FMPA to incur up to an additional \$250,000 (for a total of \$500,000) in costs and expenses related to negotiations with Duke Energy Florida, Inc. (formerly Progress Energy Florida, Inc.) regarding the Crystal River 3 Plant steam generator replacement project, the resulting extensive containment building delamination, extended outage, and forced retirement of the Crystal River 3 Plant. FMPA's costs and expenses shall not exceed the additional \$250,000 without Leesburg's, and the other the Florida Cities', advance written consent. FMPA shall provide Leesburg and the other Florida Cities with notice when FMPA reasonably believes that it has incurred costs and expenses equal to 80% of the additional \$250,000. FMPA's incurrence of such costs and expenses, and Leesburg's obligation to reimburse FMPA for its proportionate share of such costs and expenses is subject to the Agency Agreement between FMPA and Leesburg. Capitalized terms used in this authorization have the meaning given to them in the Agency Agreement.

Leesburg

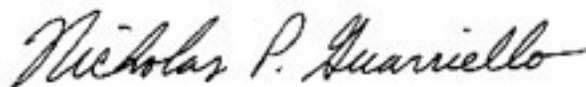
by \_\_\_\_\_

\_\_\_\_\_  
(please print name)

its \_\_\_\_\_

Date: \_\_\_\_\_

FLORIDA MUNICIPAL POWER AGENCY



Nicholas P. Guarriello  
its General Manager and CEO

Date: June 14, 2013

## EXHIBIT B

### PROPOSED MEMBER COST ALLOCATION FOR CR3 NEGOTIATIONS WITH PROGRESS ENERGY FLORIDA

Member	Ownership Energy (MWh) [1]	Purchased Energy (MWh) [2]	Total Energy (MWh)	Proposed Cost Allocation (%) [3]
Gainesville	90,973	24,412	115,385	21.99%
OUC	103,482	0	103,482	19.72%
Ocala	86,152	0	86,152	16.42%
Leesburg	53,269	0	53,269	10.15%
New Smyrna Beach	36,237	9,019	45,256	8.62%
KUA	43,642	0	43,642	8.32%
Homestead	0	30,482	30,482	5.81%
Mt. Dora	0	13,131	13,131	2.50%
Bartow [4]	0	8,563	8,563	1.63%
FMPA (ARP) [4]	0	5,469	5,469	1.04%
Alachua	5,034	0	5,034	0.96%
Williston	0	4,740	4,740	0.90%
Chattahoochee	0	4,593	4,593	0.88%
Quincy [4]	0	3,000	3,000	0.57%
Bushnell	2,507	0	2,507	0.48%
Newberry [5]	0	0	0	0.00%
Havana [6]	0	0	0	0.00%
<b>Total</b>	<b>421,296</b>	<b>103,409</b>	<b>524,705</b>	<b>100.00%</b>

[1] Represents the assumed average level of energy each CR3 owner could have expected to have received from CR3 in a typical year.

[2] Amounts represent the estimated average annual requirements energy each city purchased from PEF over the period 2010-2011 (calendar years) that could have been expected to have come from CR3 had the unit been in service.

[3] Represents each member's total energy from CR3 as a percent of the entire group's energy from CR3.

[4] Bartow, the FMPA ARP, and Quincy stopped purchasing requirements energy from PEF effective January 1, 2011, and are no longer exposed to baseload energy purchases from PEF. Additionally, Bartow, the FMPA ARP, and Quincy received reimbursement from PEF for at least a portion of their increased purchased power costs in 2010 due to the CR3 outage. As such, their respective claims to damages are limited compared to many of the Florida Cities, and their respective cost allocations have been adjusted, accordingly.

[5] At this time, since Newberry i) joined the ARP in 2000 and began taking service from the ARP on January 1, 2006, and ii) no longer purchases energy directly from PEF, Newberry has not been allocated any costs.

[6] At this time, since Havana i) joined the ARP in 2000 and began taking service from the ARP on May 1, 2003, and ii) no longer purchases energy directly from PEF, Havana has not been allocated any costs.