



August 4, 2016

The Honorable Jay Kramer
Mayor, City of Vero Beach
P.O. Box 1389
Vero Beach, FL 32961-1389

Dear Mayor Kramer,

On behalf of Florida Power & Light ("FPL"), I am pleased to submit this non-binding offer to acquire the assets of the City of Vero Beach ("City" or "COVB") currently utilized to serve the residents of Indian River Shores (the "Proposed Transaction"). I appreciate the time the City Council, City Manager Jim O'Connor, attorney Schef Wright, and members of the City's Commissions have spent on this and we look forward to further dialogue.

We believe this Proposed Transaction provides significant value to the City and keeps the City's remaining customers "whole", protecting the customers from adverse rate impacts and other financial harm that might otherwise result from the customers within Indian River Shores leaving the COVB electric system. Subject to the conditions provided in the second to last paragraph of this letter, FPL is willing to pay the City a one-time payment of \$30 million in cash for the following assets (the "Indian River Shores Assets):

- The roughly 3000 customer accounts located in Indian River Shores that are currently served by the COVB municipal electric system (the "Indian River Shores Customers").
- Facilities inside the Indian River Shores boundaries including distribution lines and feeders, real property rights, and the associated equipment and infrastructure that provide electrical distribution service directly to the Indian River Shores Customers, as well as customer information required to set up customer accounts by FPL.
- COVB's rights, title and interest in the COVB 138kV transmission system. Note that FPL Power Delivery is currently working with the COVB Transmission team to better understand the configuration of this system. If FPL and COVB are unable to come to agreement on a net book value, as well as a configuration that enables FPL to serve the customers of Indian River Shores, FPL is prepared to move forward with the Proposed Transaction without acquiring these transmission assets.
- Subject to successful negotiations on the COVB 138kV transmission system, Seller's rights, title and interest in the Fort Pierce Utilities Authority ("FPUA") Joint Facilities (the 138kV transmission and substation facilities owned jointly by COVB and FPUA in St. Lucie County, Florida, and Indian River County).
- The purchase price of these facilities will require additional Net Book Value information from COVB. If it is determined the purchase of all transmission facilities benefit the parties, the purchase of the facilities will require additional due diligence to determine

how FPL can use the facilities to interconnect its transmission and distribution system directly to Indian River Shores facilities.

- Note that separate arrangements will be made with FPUA to acquire their rights to these facilities if FPL chooses, in their sole discretion, to pursue the transmission assets; however, an agreement with FPUA will not be a prerequisite or condition to the Proposed Transaction.

I want to thank COVB's leadership for its ongoing commitment to finding a solution that works for all interested parties, including the residents of Vero Beach, Indian River Shores, and the customers of FPL. We have long appreciated COVB's efforts and recognize COVB's desire to ensure that neither COVB nor its remaining utility customers are harmed by any transaction involving the Indian River Shores customers and facilities. To that end, FPL has analyzed the materials prepared by the City's legal and rate consultants and offers the following observations:

- For sake of evaluating this Proposed Transaction, FPL has started our view of the analysis with a net present value ("NPV") of \$42.5 million for the Indian River Shores Assets, which is the last offer presented to FPL by the City.
- The assumption around escalation of City expenses is currently being modeled at 3% annually. This has the potential to create significant upward pressure on customer bills over time, as base sales growth is only being escalated at 0.5% annually. By changing the escalation for both the City's Non-Department and Electric Fund expenses to 0.5% to be consistent with base sales growth, the NPV then changes to \$36.8 million.
- Additionally, the model currently assumes a reduction of Non-Department and Electric Fund expenses of 7.1% and 3.8% respectively as a result of the sale of the Indian River Shores Assets. While this is a step in the right direction, we believe the City should be able to manage the expenses in accordance with a smaller customer base. By changing these reductions to 8.7% (consistent with the loss of 8.7% of the City's customer base) after 5 years, which seems a reasonable timeframe, the NPV changes to \$27.5 million, \$2.5 million below our \$30 million offer.
- Note that in this valuation, our \$30 million offer provides \$2.5 million of reserve which could cover any stranded costs COVB may have in the future arising from the Proposed Transaction.
- Finally, FPL believes there are cost savings on the COVB side from FPL acquiring the FPUA Joint Facilities. We have not attempted to quantify these savings, but they range from the inventory needed to support those assets, to the ongoing O&M of maintaining the facilities, and ultimately, the NERC compliance costs of owning transmission facilities. Should FPL purchase these facilities, the savings to the City should be meaningful and should be considered in the ultimate analysis of the impact of the Proposed Transaction.

We hope to move forward as quickly as possible with COVB to make this acquisition a reality. Our offer, and the Proposed Transaction, is subject to the negotiation, mutual acceptance and execution of definitive agreements by the COVB and FPL, customary due diligence, approval of FPL's Board, all approvals necessary for the COVB to execute the Proposed Transaction, and the

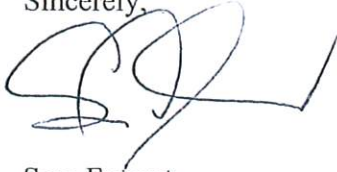
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receipt of acceptable approvals from the Florida Public Service Commission and the Federal Energy Regulatory Commission.

We look forward to the City Council's review and consideration of this Proposed Transaction at its August 16, 2016 City Council meeting and will be available to address any questions you or the rest of the Council may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Forrest', with a stylized flourish at the end.

Sam Forrest

Vice President

Energy Marketing & Trading

cc: City Council Members
Jim O'Connor, City Manager
Wayne Coment, City Attorney
Pamela Rauch
Amy Brunjes