



GRU Crossing the Rubicon

A New Course of Action

January 31, 2020



Edward Bielarski
GRU General Manager

GRU Crossing the Rubicon

Introduction

It's been almost a year since I wrote GRU at a Crossroads, so it's important to consider the thoughts and recommendations from that analysis as GRU proceeds with the framework of an agreement with FPL on full transmission access for the utility. In that paper, I said, "Keep in mind that before we cross the Rubicon, let's explore the past, the present and the future of GRU." That white paper explored GRU's past; the resulting budget process explored the present and the decisions made have decided the immediate future. This past year, GRU has gone beyond being at a crossroads and metaphorically crossed the Rubicon. As a result, the path we're proposing leads GRU into a partnership with FPL for transmission access. Here is the basis for that decision:

- **Power Operations:** GRU has five generating units that are 39 years old or older. Due to the age of these units, GRU has lost their availability for thousands of hours, resulting in higher operating costs. Some of our older units simply cost more to run than newer units on the grid.
- **Transmission Access** – GRU lacks access to low-cost power in Florida because its current Duke and FPL transmission interconnections are undersized and limited in managing our system under North American Electric Reliability Corporation (NERC) requirements.
- **Generation Replacement Constraints:** GRU is guided by the City Commission's resolution to reach 100 percent renewable power generation by 2045, so the ability to replace fossil fuel plants is limited. Current debt levels also make future borrowing for such replacements challenging.
- **Technology Limitations:** The power industry has no transitional technology to convert economically or operationally from base-load fossil-fuel power generation to base-load renewable power generation.
- **Extraordinary Underlying Contract Costs:** GRU's electric rates continue to absorb costs from the 20-year solar feed-in-tariff contracts and the costs of buying out the biomass PPA, without which GRU's electric rates would be closer to the average for the state.
- **High Electric Rates:** GRU's residential and commercial electric rates currently are the highest in the state. GRU's bond rating agencies have focused on this as a credit weakness, while GRU continues to absorb considerable customer dissatisfaction as a result.
- **Limited Mitigation Strategies:** GRU has reduced expenses by \$23 million annually while maintaining lower staffing levels. The City Commission has chosen to maintain the general fund transfer (GFT) at its current levels, opting instead for higher electric rates to maintain GRU reserves.
- **Significant Indebtedness:** The sum of the aforementioned conditions has burdened GRU and its customers with substantial borrowings, which are of

concern for bond rating agencies, whose ratings grant GRU access to capital markets.

Key Point: Last year, Fitch downgraded GRU to A+, which is the first time GRU has been in the single-A category since 1985. The reason given was that GRU is too highly leveraged, meaning it has too high a ratio of debt service to its net revenues. . In order to maintain A+ with Fitch and AA- with Standard & Poor's and Moody's, GRU needs to continue taking steps toward increasing its net revenues and/or reducing its debt load. Given GRU's leverage, there's a risk we could receive another downgrade from Fitch during their follow-up ratings process.

Within this overall context, GRU's executive team has worked to develop a strategy to mitigate the risks and costs of operating the utility. Specifically, we attempted to develop a strategy to 1) Pay down debt; 2) Reduce upward electric rate pressure; and 3) Lessen our reliance on fossil fuels.

That strategy led to the framework of an agreement with FPL. Within that framework, GRU proposes transforming the utility from an "island" of generation to a flexible participant in the competitive power market that sustains the economic, operational and environmental attributes of the utility.

Section 1: Framework of an Agreement

GRU and Florida Power & Light (FPL) have developed a framework of an agreement, whereby FPL would bear the costs and risks of constructing a transmission interconnection at GRU's McMichen substation for an estimated cost of between \$180 and \$220 million. In exchange, GRU would be obligated to pay a transmission rate tariff under a Network Services Agreement (NSA) for an estimated initial fee of \$9 million a year (Addendum 1), subject to FPL's recovery of any increased costs of transmission service through annual rate-case filings with the Federal Energy Regulatory Commission (FERC).

GRU anticipates a combination of fuel-cost savings of \$11 to \$14 million a year and fixed-cost savings of \$5 to \$8 million a year that will more than cover the initial \$9 million annual costs under the NSA.

The arrangement would also provide GRU access to FPL's territory to potentially partner with other generation suppliers to construct newer, environmentally friendly generation plants. Without an expansion of the transmission interconnection, GRU would struggle with its ability to construct the necessary generating plants required in its territory in order to move closer to the City Commission's goal of 100 percent renewable power generation by 2045.

Presentation of the Framework

On Jan. 16, GRU presented the framework for this agreement before the City Commission, asking the body to authorize the General Manager to take five actions (Addendum 2). These actions included:

1. Request transmission interconnection from FPL (which starts the process).
2. Negotiate the terms and execute the System Impact Study Agreement and Cost Reimbursement (which would be the next step in evaluating the ability to construct the transmission interconnection).
3. If required, negotiate the terms and execute a Facility Study (which would be the second phase of an Impact Study, if needed).
4. Negotiate and execute the NSA documents, only if there were no increase to the costs presented; if costs increased, return to the City Commission for approval.
5. Use the savings to reduce debt and/or reduce GRU's fuel adjustment.

The Commission did not approve GRU's recommendation, due to their expressed lack of public interface and need to deliberate on the overall ramifications of the plan, which was not unforeseen. Instead, the Commission requested the following information and plans:

1. Asset transition plan;
2. Staffing plan;
3. Options on how to apply savings;
4. History of transmission tariff increases in dollars and percentages;
5. Pros and cons of giving up GRU's balancing authority and what it does to its fuel profile;
6. Short-, mid- and long-term risks;
7. Public communications outline;
8. Convert the joint UAB/City Commission meeting on Jan. 28 to a public meeting;
9. Return to City Commission on Feb. 6.

Key Point: *If the City Commission had approved the recommendations, GRU would have only been able to negotiate, not execute the NSA, unless it was at a cost no higher than what was presented. GRU would not have been locked into a 30-year contract with the City Commission's "yes" vote. This is incredibly important to understand.*

Latest Developments

On Jan. 24, during the course of continuing due diligence on the framework of the agreement, our communications with representatives of FPL resulted in the discovery that FPL had updated its 2019 FERC Open Access Transmission Tariff (OATT) rates (which drive the initial fee under the NSA) from \$2.10 per kilowatt-month to \$2.32 per kilowatt-month, to reflect its 2020 projections (Addendum 3).

How did this new development impact our discussions?

- The immediate financial impact of a potential 22-cent increase in the OATT rates would result in approximately \$1 million added to the initial fee, from \$9 million to \$10 million.
- The longer-term financial impacts could be that FPL will be expanding its strong investment in transmission reliability, which could increase the rate by which future NSA costs increase.
- The FERC filing made it possible that FPL could be granted an increase to the NSA fee above the cost GRU had requested from the City Commission.
- The filing made it possible that future increases could be granted from FERC at higher levels than history has shown.
- We informed FPL's representative, as well as members of the City Commission and UAB on Friday, Jan. 24, that we were pausing on-going discussions (Addendum 4).

Next Steps

In addition to adding an increased financial cost to the NSA, FPL has inadvertently created distrust with the public as to their viability as a partner while also giving GRU another bargaining strategy. As a result, GRU has insisted that the burden fall on FPL to mitigate both the financial cost and public perception of this increase. We informed FPL's representative:

"You and your staff will have to come back with numbers that make more sense, while mitigating the risk that (we) see inherent in a 30-year NSA arrangement."

As GRU awaits FPL's next proposal, it's important to continue to analyze the costs and benefits along with the risks and rewards of the possible NSA arrangement. What follows under Section 2 is an assessment of the short-, mid- and long-range risks of potentially entering into the arrangement with FPL and executing the NSA documents. Also included are the current generation transition plan, how GRU will address employee's concerns and how a staffing plan would be developed, available history of applicable transmission tariff rates and GRU's public communications outline.

Finally, and most importantly, under Section 3 GRU lays out its available negotiation strategies and options in order to gain closure on the agreement.

Section 2: Risk Assessment

Entering into an NSA with FPL changes GRU's risk profile, just as forgoing the opportunity does. The following synopsis isolates those changes, assesses risk and outlines possible ways to mitigate those risks.

Contractual Risk

Legal

The NSA is part of FPL's tariff that is approved by FERC. The NSA contains significant boilerplate language, meaning much of it is standardized. Major changes to the NSA must be approved by FERC. Specific phrases have been developed over years of FERC regulations and rate-case decisions.

The NSA also incorporates other provisions of FPL's tariff, most specifically Part III of the tariff. Because tariffs are set by the regulatory authority during quasi-judicial proceedings, the tariff, including the NSA, the Operating Agreement and the study agreements contain significant boilerplate language with limited opportunity for modification.

The city attorney and her staff have completed their review of the relevant tariff provisions and have made some recommended changes to certain provisions. Other than the recommended changes, it is the opinion of city attorney staff that the documents are legal as to form and content.

Business Terms/Community Trust

Given the standardization of the NSA, it is fair to say that whatever risk is assumed by GRU is embedded in the term of the NSA, the cost GRU is willing to absorb and the amount of increases FERC will allow in the future. Thus it is important for the City Commission to understand the business terms.

The framework of business terms developed thus far between FPL and GRU is 1) FPL constructing the 450 megawatt transmission interconnection and absorbing an estimated cost of between \$180 and \$220 million; and 2) GRU executing the NSA for a term of 30 years at OATT rates.

These terms are the result of a lengthy series of arms-length discussions between GRU and FPL. Initially, FPL wanted GRU to pay for the interconnection in addition to becoming an NSA customer at OATT rates. However, GRU insisted on FPL's commitment to bear the costs of constructing the interconnection in exchange for a 30-year commitment.

Key Point: *It's important to understand that although FPL's acceptance of GRU's terms substantially reduced the business risk within the arrangement, it did not mitigate all of that business risk (specifically surrounding the 30-year term and future rate increases). However, based on the lessons of the buyout of the biomass PPA, it was important to present the initial case to the UAB and City*

Commission and get their approval to move forward during the next steps of negotiation in a transparent fashion.

Part of the difficulties of developing these types of agreements in the sunshine is that municipalities such as GRU must publically present pluses and minuses and even negotiating positions for all to hear, including, in this case, FPL. As a result, we brought the framework of an agreement before the UAB and City Commission, asking for authorization to negotiate with FPL, based on a set of principles, in order to negotiate and deliver an agreement for approval. It worked as planned, with the following results:

- FPL got to hear the City Commission and public's fears about a 30-year deal.
- The framework of the agreement was explored and vetted.
- FPL was made to pull back from the urgency of completing the deal.
- FPL updated its filing for 2020 projected costs at a time which allowed GRU to recognize the potential for annual rate increases.

It can't be emphasized enough that this stage was set because, to this day, many people in Gainesville believe that GRU did not negotiate the most favorable agreement to buy out the biomass PPA in 2017. For the most part, they were unaware of the substantial, productive negotiations between GRU and GREC before seeing the final product brought before the UAB and City Commission. We are intent on avoiding that perception this time.

Future Tariff Rate Risk

The initial annual cost of the NSA will be set based on the OATT rates at the time of the in-service date of the transmission interconnection. Future increases to that rate are dependent on FPL's cost of providing transmission service and its return on investment (FPL is requesting over 10% ROI). A process exists through which FERC adjudicates the increases, including public hearings and the ability for GRU to dispute the rate increases. In the end, FPL will drive increases through investments, with FERC having final authority over the level of future tariff rate increases to all NSA customers, including GRU.

FPL started charging its wholesale power rates in 1993, with an initial OATT stated rate of \$1.40 per kilowatt-month. Since that time, FPL has had three increases, all of which use FERC's stated-rate basis, raising it to \$1.59 per kilowatt –month in 2011, where it has remained since.

In August of 2019, FPL submitted filing revisions to its OATT, the primary one being the request to implement a cost-of-service formula rate for its OATT. The proposed transmission formula rate was proposed to replace the stated rates found in Schedule 7 of the OATT (which is the primary driver of GRU's anticipated transmission fees). If accepted by FERC, these changes would allow FPL to modify their OATT annually, rather than on an as-needed basis through filing a rate case (Addendum 5).

The August 2019 filing requested a partial initial rate year of \$2.10 per kilowatt-month, subject to true-up once November and December 2019 actual data became available. FPL's representatives failed to disclose that the utility had made any true-up calculations and submitted them to FERC until Jan. 24, when FPL representatives informed GRU that they had updated their 2019 filing with actual November and December 2019 numbers to reflect costs of \$2.32 per kilowatt-month (Addendum 3).

This chronology of events also included representations from FPL that FERC had suspended the 2019 rate case and that there were settlement discussions underway, from which a \$1.95 per kilowatt-month OATT rate was anticipated (similar process that occurred in FPL's 2010 rate filing).

Key Point: *To reiterate, the approval requests GRU brought before the City Commission provided multiple exit options for GRU including, 1) the absolute need to negotiate an NSA at a cost no higher than what was represented in the presentation, and 2) the ability to walk away from the negotiations for any reason prior to execution of the NSA.*

Upon further examination, FPL's OATT rate has increased 13½ percent from 1993 to 2019, or just over one-half percent per year. However, if you include the full \$2.32 updated 2020 OATT, it becomes a 66 percent increase over 27 years, or 2½ percent per year. It should be noted once again that FPL has used stated transmission rates from 1993 until 2019. The 2019 rate filing requested and projected the use of cost-of-service formula rates, not unlike its competitor, Duke Energy.

By way of comparison, GRU's only other potential transmission provider, Duke Energy, has a formula rate, which is calculated each year, and a special storm rider. Duke's 2018/19 actual OATT rate is \$2.558 per kilowatt-month, plus a 6.6-cent storm rider for a total of \$2.624, or almost 13 percent above FPL's 2020 updated requested rate (Addendum 6).

As for other utilities, Southern Company's OATT 2021 rates are \$3.34782, while Tampa Electric's current OATT rates are \$2.6446 and \$5.5536 for on-peak and off-peak, respectively (Addenda 7 and 8) – again, a much more costly service than FPL.

FPL's OATT rates have been reasonable to date, but is there a risk they would seek and be granted extraordinary rate increases? Perhaps they would in the following circumstances:

- Conversion from a stated to formula transmission rate.
- Unprecedented investment into transmission infrastructure.
- Damage or destruction to FPL's transmission infrastructure due to weather events that have been elevated by climate change.
- A successful cyber-attack.
- An act of war.

By its own admission, FPL has spent over \$2 billion dollars in transmission since its 2010 rate-case filing. They admit that "significant additional investments" will be required, which include system expansions, storm hardening and reliability upgrades (Addendum 5).

The bottom line is it would be unrealistic for a transmission service provider such as FPL to hold an initial cost of service for 30 years without any increases. GRU is protected against arbitrary and unjudged increases through the FERC regulation of the NSA and its services. The history reflects relatively small increases in OATT rates on the part of FPL. The update of FPL's rate request, which reflects greater than a 10 percent year-over-year increase, (Addendum 3) is concerning, largely due to the request to use a formula rate. The risk is high enough to have resulted in a pause in GRU/FPL discussions in order to mitigate the risks.

Fuel Savings Risk

GRU has indicated that there is a financial benefit to entering into an NSA, resulting from the utility's ability to increase its import of power generation from outside its territory, which could result in between \$11 to \$14 million a year in fuel savings. These estimates were derived from GRU's modeling under GenTrader, a proprietary software used for modeling the cost of power based on which units are dispatched over the year. Using our 2020 budget as a proxy, we made the following assumptions:

- 1) The \$11 million savings scenario was modeled with a maximized market import capability at 448 megawatts, with projected hourly market pricing under economic dispatch with the Kelly and Deerhaven Renewable (DHR) plants as must-run units (meaning if the generating units are available they will be dispatched). This results in GRU purchasing 23 percent of its power generation through the transmission interconnection (Addendum 9).
- 2) The \$14 million savings scenario was modeled with maximized market import capability at 448 megawatts with projected hourly market pricing under economic dispatch only. Under this scenario, only the Kelly and Southeast Energy Center (SEC) plants were dispatched, and GRU purchased 51 percent of its power generation through the interconnection (Addendum 10).

The risk inherent in this analysis is that the market prices of power could change with the underlying fuel, such as natural gas, coal and biomass, as well as other renewables. Although projections of natural gas prices remain fairly constant, the possibility exists that gas extraction, such as fracking, will be banned, reduced or made more expensive, driving the costs of natural gas higher. GRU may also elect to enter into a longer-term PPA or Joint Dispatch arrangement with FPL or others, which could change these estimates.

The fuel-cost savings are driven by the inherent efficiencies of combustion processes, known as heat rate, within GRU's older fleet and FPL's more modern fleet. In layman's

terms, the heat rate is the amount of energy used by a power generation unit to produce one kilowatt of electricity. The lower the heat rate, the higher the unit's efficiency.

Whereas the average heat rate for GRU's Deerhaven coal plant (DH2) is approximately 13,500 at its current load profile, FPL's average fleet heat rate is approximately 8,000. That means FPL's assets are almost 40 percent more efficient than DH2.

Key Point: *Nothing would change the efficiencies of the current power generation units at GRU that would make them more efficient, from a heat-rate perspective, than FPL's fleet of assets. The result is a deeply embedded operational bias toward using the transmission interconnection to buy power from FPL.*

While the \$11 to \$14 million in fuel savings may decline as a result of the aforementioned risks, it's also very likely that high natural gas pricing would cause us to dispatch DH2 offline, creating a fuel savings.

This is why GRU will continue to work toward dual-fuel capabilities at DH2 – so that it can be run with natural gas or coal – keeping our strong fuel diversity during this transition period.

Finally, GRU will be seeing the expiration of expensive power arrangements, such as the \$2 million a year spent on landfill gas power, which will end in 2023, and the expiration of Solar Feed-in-Tariff contracts costing \$6 million a year, which will expire in the mid-2020s. None of these savings were used in the calculation of future fuel savings.

System Reliability Risk

GRU must operate all of its generating plants in accordance with NERC standards, which require GRU to at all times have the capability to deliver needed power within 30 minutes in the event GRU loses its largest generating plant while in production. Because most of GRU's generating plants take longer than 30 minutes to go from "off" to "on," GRU must keep these generating plants running to meet the NERC 30-minute requirement. NERC also prohibits each utility from generating more electricity than its customers need. Because of these two NERC requirements, GRU's electric system reliability is hampered by its inability to run its generating units at their rated capacity. For example, GRU's DH2 is rated at 228 net and 252 gross megawatts, but on most days its maximum generation capacity is limited to approximately 120 megawatts.

Key point: The NSA potentially increases GRU's generation capacity by creating an opportunity for DH2 to run higher than the current 120 megawatts. Dispatching DH2 at higher loads would also provide the added benefit of operating at lower heat rates, meaning lower costs, which would provide additional fuel savings.

It should be noted that the proposed transmission interconnection will tie GRU into FPL's Rice Substation, which hosts a double-redundant 500kV transmission line, one of the most reliable in the United States. It is the backbone of power transport through all of Florida and the eastern seaboard.

Furthermore, GRU has generating assets nearing the end of their useful lives over the next six years which, without the NSA with FPL, will require constructing replacement power generation in the near future (Addendum 10).

As a result, in most cases the NSA actually reduces this current system reliability risk and enhances GRU's own generating unit profile. However, some circumstances exist under which GRU could be exposed to FPL's system reliability risk. Potential scenarios under which GRU could expose itself to potential FPL electric system reliability issues include:

- 1) GRU must have mothballed or retired some of its generation units, and FPL would have to experience catastrophic failures across its fleet of generating assets to the level that they were not able to serve the native load of its customers. FPL would be required to implement load reductions (blackouts and brownouts), which could impact GRU's ability to serve its customer load profile.

Scenarios under which this could occur include weather events that Florida has yet to see, which would flood, damage or destroy FPL's in-land generation assets while not impacting GRU's generation assets. Climate change could create such a scenario under which storms the magnitude of hurricanes Andrew and Irma would be more powerful. However, unlike Duke, FPL has never filed for a storm rider and does not have formula rates for wholesale power. Interestingly, Moody's Investor Services disclosed in a report that Ameren, Xcel, Dominion and Duke were among those most at-risk from changing climate, not FPL (Addendum 13).

- 2) A cyber-attack on the FPL infrastructure that would make fulfilling generation obligations impossible.

- 3) Acts of war or terrorist attacks on FPL's infrastructure.

Key point: The NSA connects GRU to a major 500 kV transmission line and delays the need to construct replacement power generation fairly soon. Although the possibility exists that FPL could experience climate change weather impacts, cyber-attacks or acts of war or terrorism, it is highly unlikely that, given FPL's history and culture of excellence, we would see events of the magnitude necessary to interrupt the delivery of services from FPL.

Fixed-Cost Savings Risk

GRU has indicated that entering into the NSA allows it to reduce its fixed costs by eliminating positions at generation plants unable to operate due to newer competitive forces. The estimates of between \$5 and \$8 million consider a reduction in positions at the Deerhaven site, along with maintenance and outage service costs. At this level, they don't represent full retirement of Deerhaven's assets. Skeleton to partial crews would staff the Deerhaven campus to be able to take units out of cold standby, or idle status, during the first several years of operations under the NSA.

The timing and extent of these fixed-cost savings could be reduced or increased depending on how efficiently GRU can manage its generation assets after entering into the NSA. As a result, these savings could start to be seen in the third, fourth or even later years, at levels equally spread above and below the estimates.

With or without the NSA, GRU could see Deerhaven Unit #1 (DH1) reach the end of its useful life as soon as 2022, and two combustion turbines may reach that condition soon thereafter (2026) (Addendum 11).

Technology Risk

The ubiquitous disruptive change within the utility industry is driven largely by the need to develop and commercially deploy new technologies that address climate change. As a result, even supplemental power sources such as solar are being built as the first phase in a yet-to-be-determined technology conversion. The next phase, on an industry level, may be a potential battery storage solution or a small-scale nuclear plant technology.

Key Point: *The execution of the NSA doesn't expose GRU to any of that risk. GRU can elect to enter into daily market purchases while retaining its generation capacity; enter into firm power arrangements while scaling down its generation portfolio; or enter into long-term power purchase agreements for assets that are solely built for GRU's use, within FPL's territory.*

GRU even substantially avoids the technology risk associated with the possibility that the utility will no longer be drawn upon to provide power to the community. If the community is one where households supply their own power through rooftop solar and/or store power in car or house batteries, then the way the OATT rate is measured will result in substantial reduction of the obligation. When GRU loses customers due to self-generation, peak load drops with every customer lost, which is how the NSA is priced.

The only technology risk GRU incurs when it enters into the NSA is the possibility that the utility's customers will no longer require power from GRU or any other company.

Customers will supply their own power through rooftop solar, store power in car or house batteries and/or sell enhanced solar power back into the grid at increased levels.

However, if GRU is no longer a generator of power, some would argue that having transmission access may allow the transport between systems to be more efficient.

Organizational Risk

Entering into an NSA almost two years in advance of the actual in-service date of the transmission interconnection places employees working at fossil fuel facilities in a precarious position. The utility exposes itself to poor morale, which leads to safety concerns, turnover, reduced performance and a host of interpersonal issues.

Although it's never been a question that the utility's fossil fuel plants would be mothballed or retired due to the goal of reaching 100 percent renewable generation, it is a shock to those in the eye of the storm to be confronted with the reality of a date associated with the conversion.

As a result, the risk of poor morale, safety and others listed above exists whether the NSA is executed or not; it's just a matter of when. Given what employees have said and expressed in writing, there is a risk, today, of some leaving for other jobs or losing focus in their current jobs (although I'm confident they, as a group, have too much integrity to let their performance suffer). Fortunately, this risk can be mitigated through extending valuable options to the affected and potentially displaced employees, such as:

1. Offering preference to displaced workers on vacancies across the city.
2. Potential cross-training employees for other vacancies.
3. Offering outplacement services.
4. Pursuing "early-out" retirement options.
5. Working with FPL on preferential placements for displaced workers.

If GRU were to communicate and commit to these options, it would substantially lessen organizational risk for the utility. That is why we have communicated openly with our employees, even meeting with workers at our Deerhaven campus, DHR and the Kelly facility. GRU's communications department has developed the timeline and methods of communication, not only with employees, but with the public (Addendum 12).

It will be important to treat any of our displaced workers with the dignity and loyalty they have given the utility, for us to be a successful organization moving forward.

Section 3: Putting it all Together

The status quo scenario is not financially or operationally sustainable, nor does it establish a viable path toward 100 percent renewable generation by 2045. It is therefore clear that the worst case is maintaining the status quo. Fortunately, as planned, GRU is

in a position to negotiate a less risky, more economic NSA arrangement. In particular, GRU will negotiate towards the following issues:

Negotiating position #1 – GRU requires limited financial exposure on the length of the NSA. Thirty years of exposure to FERC rate-setting policy on transmission tariffs is an untenable risk for GRU. We need to see options for: 1) Setting the term of the NSA to end in the year when FPL recoups its investment through actual OATT rates; 2) Setting the term of the NSA to end in the year when FPL projects recouping its investment; and/or 3) Shorten the term to end at a time certain (e.g. 15 years), acceptable to both parties.

***Key Point:** The 30-year term of the NSA exposes GRU to an unacceptable level of risk surrounding future OATT rate increases, and FPL must entertain creative solutions surrounding shorter terms.*

Negotiating position #2 - GRU requires limited financial exposure to future tariff rate increases. In all likelihood, we will satisfy this position by negotiating the length of the NSA, but it's important to point out that a flat, or fixed-rate over the term would mitigate significant risk on GRU's part.

***Key Point:** Some combination of shorter term and fixed annual NSA payments would be a strong factor in accepting the NSA.*

Negotiating position #3 – FPL should accept best efforts to hire any employees who may be displaced as a result of the GRU Generation Transition Plan. After the transmission interconnection is built and GRU has operated without import restrictions, it's important for FPL to use its best efforts to hire and retain any displaced GRU employees. It would also be important to assist workers who would be more comfortable moving on within the next two years to seek employment with FPL.

Negotiating position #4 – GRU and FPL must work during the interim on generation options that would maximize fuel savings. The next 18 months to two years of construction activity on the transmission interconnection will allow GRU and FPL to explore and develop generation products, such as solar-sculpted PPAs, joint-dispatch opportunities and shorter-duration power purchases.

As we await FPL's response, GRU continues to seek economic alternatives which fulfill its mission of delivering safe, reliable, competitively priced utility services in an environmentally sound way, in accordance with community values.