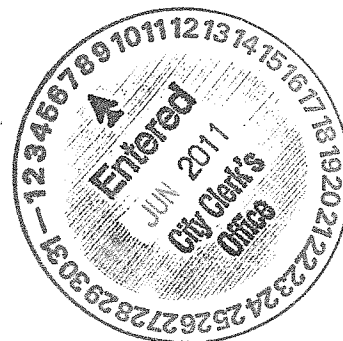




June 7, 2011

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



Dear Mayor Kramer:

I write in response to a 19-page commentary entitled "Issues to Consider in the Proposed Sale of the Vero Beach Electric Utility," by the Florida Municipal Electric Association (FMEA), which lobbies on behalf of the 34 municipally owned electric utilities across Florida.

It is important to recognize that FMEA has a vested financial interest in disrupting the potential sale of the City's electric utility and that the arguments presented in the commentary are – at best – selectively self-serving. The document includes incorrect claims and presumptive calculations. In total, the commentary is misleading. In an effort to maintain a proper context for our continued discussions, we have addressed some of FMEA's most egregious assertions (see attachments).

Our position has remained the same since the beginning of this discussion, when the City requested that we consider purchasing its electric utility system: FPL is focused on reaching a decision that is in the best interests of both our current customers and the people served by the City of Vero Beach's electric utility.

We have no doubt that the City's electric utility works hard to keep costs down and provide its customers with reliable service. On that, we can all agree. Similarly, despite FMEA's claims, FPL's record is clear, and we are proud of the affordable, reliable and clean electric service we provide to our customers. Since at least 2006, FPL's typical residential customer bill has been the lowest or among the lowest of the state's 55 electric utilities, and we deliver better than 99.98 percent service reliability. We consistently rank as one of the cleanest utilities in the nation, and we continuously invest in our infrastructure to keep customer bills lower and service reliability higher over the long term.

On behalf of FPL, I wish to thank the City for its ongoing commitment to a productive dialogue. We look forward to meeting with the City's representatives tomorrow.

Sincerely,

A handwritten signature in cursive script that reads "Pam Rauch".

Pamela Rauch  
*Vice President  
Corporate & External Affairs*

Enclosures (4)

cc: City Council Members  
Monte Falls, Interim City Manager  
Wayne Coment  
Amy Brunjes

Florida Power & Light Company

700 Universe Boulevard, Juno Beach, FL 33408

## Attachment 1: Response to FMEA claims regarding historical, current and future electric rates

The FMEA commentary mixes real data with outrageously presumptive guesses in an attempt to prove an improvable point. The truth is that it is impossible to predict the rates of any utility far off into the future. FPL's current agreement with the Florida Public Service Commission (PSC) will keep our customer base rates steady through the end of 2012. Beyond that time, we will need to have rates authorized by the PSC. Many of the same potential drivers (fuel price volatility, inflation, operating & maintenance increases, etc.) of a potential FPL rate increase would also affect other utilities in the same manner. In fact, some costs – such as the often-volatile price of fossil fuels – can have a disproportionately adverse impact on smaller utilities, as the City of Vero Beach experienced under its prior wholesale power contract with FMPA. With any two utilities there may indeed be periods when their rates are comparable due to timing of rate cases, fuel cost changes and other variables that impact electric rates, and there may also be times when larger differences exist as was the case in recent years between FPL and the City. That's why it's important to look at the long-term trend.

- Since at least 2006, FPL's typical residential customer bill has been the lowest or among the lowest of the state's 55 electric utilities. Based on FMEA's own chart, FPL rates have been comparable or lower than the City of Vero Beach's since 1991.
- One of the reasons that FPL has lower customer bills is because we have made significant investments in improving the efficiency of our generating plants and electrical grid.
  - While we can't control the price of fuel, our investments are making our power plants more efficient so that they use less fuel. That helps our customers, particularly when the price of fuel rises on the world markets.
  - Since 2002, FPL's investments in more efficient fossil fuel plants have saved customers more than \$3 billion in fuel costs and avoided more than 30 millions tons of CO2 emissions.
  - The efficiency of FPL's power generation from oil and natural gas is approximately 15 percent better today than it was in 2002, which equates annually to removing more than 1 million cars from the road. By the end of 2013, FPL's ongoing investments are expected to produce cumulative customer savings of more than \$5 billion and avoid more than 50 million tons of CO2 emissions – the equivalent of removing 10 million cars from the road.
  - In 2010 alone, FPL invested more than \$2.5 billion in the infrastructure on behalf of our customers. Going forward, we're continuing to invest in the infrastructure – more than \$11 billion planned during 2011-2014 – to keep costs down and service reliability high for our customers.
    - *Note: FPL doesn't generate this much cash. The funds come from investors who require a return on their investment, and those returns are reflected in our reported income. Our 2010 net income increase was driven primarily by returns associated with our two West County Energy Center units, which are producing dramatically fewer emissions and generating tremendous fuel savings for customers. West County unit 3 alone is projected to produce net savings for customers of \$650-750 million over its operational life. Our record clearly shows that producing benefits for customers and value for shareholders go hand in hand.*

- FMEA's projections for the impact of FPL's nuclear projects on customer rates are baseless. FPL's nuclear power plants have proven to be incredibly beneficial investments for our customers, saving them literally billions of dollars over time.
  - Our current nuclear uprate investment is projected to produce net savings for customers of more than \$600 million over the project's operating life.
- FPL also helps customers save money by offering industry-leading energy efficiency programs that help individual customers reduce and manage their electricity use, even as we continue to invest to ensure we can continue to deliver affordable, reliable, clean electricity over the long term.
  - FPL has partnered with customers to avoid the need to build 13 medium-sized power plants since 1981.

**Attachment 2: Response to FMEA claims regarding revenue and tax impacts to City of Vero Beach**

*Property Taxes:* FPL will provide additional revenue streams in the forms of property taxes to the City, and other entities operating within the area served by the City's electric utility, totaling more than \$1.7 million. The breakdown of the estimated property tax revenue streams are as follows:

Vero Beach	\$874,000
Indian River Shores	\$125,000
Unincorporated	\$700,000

The City's total property tax bill includes components that presumably benefit the City and its citizens, whether directly or indirectly. Furthermore, these are monies that would benefit the needs of the City and potentially lessen any need for the City to supplement resources.

In our Letter of Intent, we outlined several sources of annual revenue to be paid to the City – including franchise fees, property taxes and annual lease payments which should offset substantially or in total the City's annual revenue transfer.

*Offer Price:* FPL is offering up to \$100 million for the Vero Beach Electric Utility. The offer price is intended to be used by the City of Vero Beach at their discretion, although we would assume that the City would use those funds to pay off any obligations associated with the electric utility assets. The two major obligations include the debt associated with the electric utility assets and any termination payment associated with a successful negotiation of an exit from the Orlando Utilities Commission power supply contract. In addition, the City of Vero Beach currently has an underfunded pension, and FPL is offering to absorb that net pension liability and relieve Vero Beach of that obligation. The City of Vero Beach also has entitlements to nuclear and coal generation assets that Vero Beach would be required to transfer to another municipality in order to take retail service from FPL.

### Attachment 3: Response to FMEA claims regarding service reliability and hurricane restoration

The City of Vero Beach's electric utility has served its customers well in terms of reliability, but FMEA's disingenuous criticism of FPL's reliability is based in many inaccuracies. Most importantly, FPL does, in fact, maintain the "sound business practices" that FMEA claims the company does not follow with regard to service reliability. Indeed, FPL delivers better than 99.98 percent overall service reliability for our customers.

#### Restoration Response and Vegetation Management

FPL provides industry leading 24/7 restoration response to our customers centered on a commitment to operational excellence. Regarding the acquisition proposal, there are a number of options currently under consideration, including the option to assume the lease and continue the use of the existing service center facility.

Regarding vegetation management, FPL's line clearance program is designed to maintain our distribution facilities clear of vegetation to provide safe and reliable electric service to our customers. FPL maintains facilities in accordance with the National Electrical Safety Code (NESC) and ANSI A300 standards. FPL maintains all feeders (main distribution power line) every three years. Since 2007, FPL has maintained 18,089 feeder miles and plans to trim an additional 4,300 feeder miles this year.

FPL also conducts the following activities to further optimize system performance:

- Our Mid-cycle program to address very fast growing trees and palms. Since 2007, FPL has maintained 21,380 feeder mid-cycle miles and will trim an additional 4,700 this year.
- Our Critical Tree Removal program is targeted at trees meeting specific criteria in order to insure that any removals are necessary to ensure reliable service. Last year, FPL removed 15,960 critical trees.
- Our Palm Cycle program targets Florida's fastest growing species and schedules them for trimming between our standard Preventative Maintenance and Mid-cycle programs. FPL maintains more than 9,000 palms under this program.
- Our Critical Infrastructure Facilities (CIF) program provides targeted trimming of vegetation near FPL infrastructure that serves critical facilities such as hospitals, 911 centers, etc.

FPL maintains lateral (neighborhood) power lines based on PSC commitments to attain a six-year cycle. Since 2007, FPL has maintained 9,802 lateral miles and will trim an additional 3,225 this year, which will exceed the current PSC commitments. FPL also conducts "hot-spot" trimming on laterals to address specific conditions to improve neighborhood reliability. FPL averages over 17,000 of these each year.

FPL has had no recorded vegetation outages on the FPL owned Transmission lines feeding into the city of Vero Beach within the last ten years.

- Although it is not required, FPL applies NERC reliability standard FAC 003 to all transmission lines, resulting in transmission line maintenance on an 18-24 month cycle.
- For every transmission line section, FPL completes a minimum of two on-ground inspections by qualified arborists each year, assigning maintenance based on: (1) vegetation growth rates, and (2) the position of the vegetation relative to the conductor accounting for conductor movement.

These programs and trimming practices have resulted in greatly reduced vegetation interruptions. According to the 2009 Edison Electric Institute reliability report, vegetation accounted for 22 percent of customer interruptions nationwide (excluding major outages), however, it only accounted for 11 percent of FPL's customer interruptions, despite Florida's lush flora.

FPL has received the Tree Line USA award for nine consecutive years and works with several community outreach programs and Right Tree Right Place initiatives throughout the state, including the Florida Atlantic University arboretum, Miami-Dade Adopt-a-Tree, etc. FPL also has a superior Quality Assurance program that inspects Preventative Maintenance work and provides detailed feedback to our vendors and requires immediate correction of work defects or work not completed.

#### Listening to Customers

FPL has dedicated distribution-focused customer service employees whose primary purpose is to respond to/resolve customer complaints and inquiries. FPL has in place multiple and proven processes to address customer complaints. Customers can contact FPL's Care Center 24 hours a day to report not only outages, but also any reliability or facilities-related issues, including streetlights and tree conditions. These complaints are assigned to the operational area for handling and have different service levels, depending on the issues. FPL also has in place an elevated complaint process to address complaints and issues that need immediate attention or quicker resolution.

Additionally, the PSC has specific rules in place for tracking, reporting and resolving complaints. FPL participates in the Transfer-Connect complaint handling process with the PSC, through which customers who contact the PSC have the option to be transferred to FPL for immediate handling of their complaint. FPL has a resolution rate of better than 95 percent for customers who chose to be transferred. Complaints from customers who elect to file a complaint with the PSC are resolved within three days 93 percent of the time on average over the past three years. In 2011 to date, FPL ranks first (lowest number of service-related complaints) among the three major investor-owned utilities.

Moreover, FPL has been recognized nationally for our excellent customer service:

- In 2011, we received the prestigious ServiceOne Award, awarded by PA Consulting in recognition of outstanding customer service, for an unprecedented seventh consecutive year.
- We have also been recognized by a wide variety of industry organizations:
  - Our Customer Service Field Operations national accounts team was recognized this year for outstanding customer service by the Edison Electric Institute, which was voted on by over 70 national account customers.
  - Our energy efficiency programs were recognized as outstanding by leading national chain businesses in 2009.
  - Our Customer Service Field Operations' business account management team was among the industry's top performers in an E Source benchmarking survey for the second year in row.
  - Our Interactive Voice Response system was ranked Number 1 in an E Source survey.

#### Undergrounding of Power Lines

Over the past five years, more than 60 percent of FPL's new construction throughout its service territory was underground. In 2010, 89 percent of our new construction was served by underground electrical services. FPL also supports underground conversions and works in partnership with many municipalities to convert all or portions of their overhead distribution facilities to underground. In 2010, FPL

completed nine overhead to underground conversion projects in Hollywood, Daytona Beach Shores, Flagler, Sunny Isles Beach, Canaveral, Stuart and Palm Beach. However, it is important to note that undergrounding does not eliminate outages, and in fact, can inhibit restoration, particularly when flooding is present.

General Reliability and Storm Restoration

The commonly accepted indicators of a utility's reliability are:

- System Average Interruption Duration Index (SAIDI): the number of minutes a utility's average customer was without power over the year
- System Average Interruption Frequency Index (SAIFI): a utility's average number of outages per customer over the year
- Customer Average Interruption Duration Index (CAIDI): the average outage duration time per customer or a utility's average restoration time

FPL participates in respected annual benchmarking initiatives to compare reliability performance of similar-sized utilities. Neither of these use "L-Bar." The Institute of Electrical and Electronics Engineers also does not recognize L-Bar as a significant indicator of a utility's reliability.

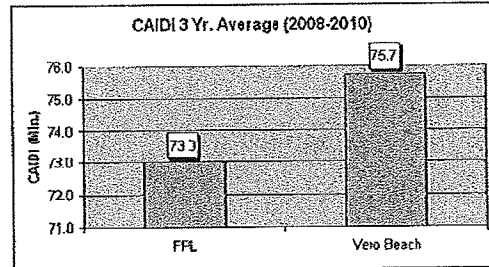
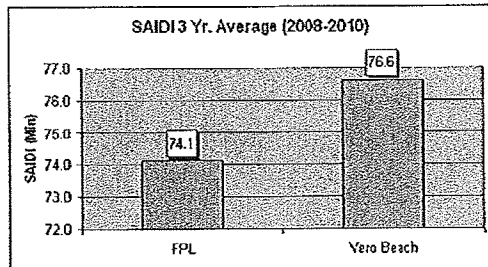
In addition, FMEA selected an eight-year comparison that includes the 2004 and 2005 hurricane seasons. Although reliability indicators are adjusted to remove data during events such as planned outages and natural disasters, FPL's service territory faced direct hits from an unprecedented seven named storms between August 2004 and October 2005, which challenged our system and resources tremendously for many months. We are unaware of any utility in the country that has successfully responded to such severe challenges. FPL has made significant progress in hardening its infrastructure since that time, and today is even better positioned to meet future storms of that magnitude.

A historical performance comparison is provided below, which includes the most recent three-year average for the primary reliability indicators. In this comparison, FPL's SAIDI and CAIDI actually appear better than the City's. We do not make this comparison to "prove" that FPL is more reliable. This is simply to demonstrate that regardless of the way one chooses to analyze the data, both FPL and the City of Vero Beach's utility deliver strong reliability for their customers.

<b>Reliability Indicators</b>							
<i>Note: Data excludes periods with planned outages, generation/transmission disturbances and natural disasters</i>							
<b>FPL</b>				<b>City of Vero Beach</b>			
<b>YEAR</b>	<b>SAIDI</b>	<b>SAIFI</b>	<b>CAIDI</b>	<b>YEAR</b>	<b>SAIDI</b>	<b>SAIFI</b>	<b>CAIDI</b>
2003	68.2	1.35	50.5	2003	N/A		
2004	69.7	1.22	57.3	2004			
2005	69.6	1.15	60.4	2005			
2006	74.3	1.29	57.8	2006			
2007	73.2	1.21	60.3	2007			
2008	67.2	1.07	62.9	2008	49	0.78	62.5
2009	77.9	1.08	72.1	2009	85	1.00	85
2010	77.3	0.92	84.0	2010	95.9	1.20	79.7
Avg. '03-'10	72.2	1.16	63.2	Avg. '03-'10	52	1.08	48
Avg. '08-'10	74.1	1.02	73.0	Avg. '08-'10	76.6	1.00	75.7

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We would also note that FPL has placed a strong focus on preventing outages before they occur. Our achievement in this effort is evidenced by our improvement in SAIFI – in 2010, we reduced the average number of outages to less than one per customer.



FMEA’s commentary on FPL’s hurricane restoration efforts is similarly deceptive. In particular, FMEA’s claim that for Hurricanes Frances and Jeanne and Tropical Storm Fay, “it is clear FPL had more outages for a longer period of time compared to the Vero Beach Electric Utility.”

First, it is obvious that a utility with 4.5 million customers will have more outages than a utility with 35,000. Second, FMEA’s outage length comparisons do not account for the specific impact of any of the storms on any particular area. All three of the storms referenced made landfall in FPL territory. Hurricane Frances affected virtually every inch of FPL’s 27,000 square-mile service area, knocking out power to 2.8 million FPL customers. Hurricane Jeanne affected 1.7 million of our customers. Tropical Storm Fay affected comparatively fewer customers; however, the path of the storm resulted in areas of FPL territory being affected more than once. Moreover, the extensive flooding that Fay caused in certain areas impacted FPL’s ability to restore power in areas served by underground equipment.

Each year, FPL conducts extensive training and conducts an annual hurricane drill to prepare its employees for storm season. This drill practices pre-positioning resources, tracking outages, modeling and assessing damage, communicating with customers and initiating restoration. Beginning in 2006, FPL began to implement its PSC-approved storm hardening and preparedness initiatives. From 2006-2010, FPL spent more than \$680 million to strengthen and better prepare its distribution system for storms, including:

- Inspecting and repairing/replacing all distribution poles on eight-year cycle (600K/\$172 million)
- Building our overhead system to the highest National Electrical Safety Code construction standard (extreme wind loading criteria); included in our three-pronged approach:
  - Upgrading all critical infrastructure facilities (e.g. hospitals, 911 centers)
  - Incrementally hardening facilities that serve community needs (e.g. facilities serving gas station, grocery stores, pharmacies) up to and including extreme wind loading
  - All new construction built to extreme wind loading criteria (includes 210 critical infrastructure facilities and 74 community projects / \$224 million)
- Clearing vegetation from all main (feeder) distribution lines on a three-year avg. cycle and all lateral distribution lines on a six-year avg. cycle (60K+ miles of line, \$286 million)

FPL is a member of three mutual assistance groups that provide resource support during restoration events. These resources include Distribution and Transmission crews, Vegetation/Line Clearing crews and storm patrollers. Our most often utilized mutual aid group is the Southeastern Electrical Exchange, which is comprised of 13 member companies with tens of thousands of crews. As active members of the



Edison Electric Institute, we have access to its national/international membership as needed. We are also one of 36 members within the Florida Coordinating Group Mutual Aid organization. Further support is provided through storm contracts that are in place with several national and regional contractor companies (includes Pike Electric, Mastec). During 2005, these memberships and contracts enabled us to bring in an additional 6,300 line personnel in support of our hurricane restoration efforts.

#### Attachment 4: Response to FMEA claims regarding regulatory and legal issues

Contrary to FMEA's claims, municipal "regulation" of rates does not necessarily provide protection to customers of a municipal electric utility, as evidenced by the fact that customers of Florida's municipally owned utilities generally pay far higher bills than customers of FPL.

- Neither the PSC nor any other disinterested third party has the power to review municipal electric rates to determine whether the level of those rates is unreasonable or excessive. A municipality essentially regulates itself.
- In setting its own electric rates, a municipality is not subject to any standards of reasonableness such as those that apply to the PSC under Chapter 366 of the Florida Statutes. In contrast, FPL is regulated by the PSC, which must make disinterested decisions in accordance with statutorily prescribed standards.
- Unlike a municipality, the PSC does not pay, collect or depend on the rates that it approves for FPL and so is in a position to make an impartial decision on the level of those rates.
- The PSC's review of FPL's rates is governed by standards under Florida Statutes Chapter 366 that provide for the rates to be just and reasonable, and for the PSC to hold a hearing and make changes any time that it finds the rates are "unjust, unreasonable, unjustly discriminatory, or in violation of law; that such rates are insufficient to yield reasonable compensation for the services rendered; that such rates yield excessive compensation for services rendered; or that such service is inadequate or cannot be obtained...." *Section 366.06, Florida Statutes.*

FMEA also inaccurately characterizes the role that the PSC would play in reviewing FPL's purchase of the City's electric system. In reality, the PSC has a responsibility to protect both the customers of the acquired utility and the existing customers of the acquiring utility, whose interests the PSC must balance.

- As the PSC observed in a similar situation in which the City of Sebring was selling its utility system to Florida Power Corporation ("FPC"); n/k/a Progress Energy Florida), "In setting rates, the PSC has a two-pronged responsibility: rates must not only be fair and reasonable to the parties before the PSC, they must also be fair and reasonable to other utility customers who are not directly involved in the proceedings at hand." *Order No. PSC-92-1468-FOF-EU, dated December 17, 1992, at p. 15. Note: the PSC is citing to an earlier Florida Supreme Court decision reviewing a PSC order, CF Industries v. Nichols, 234 So.2d 536 (Fla. 1988)*
- FMEA also inaccurately states that the PSC would only permit FPL "to put into its rate base the book value for the assets it purchases. Thus, it is not permitted to pay market value and spread the costs over all of FPL's customers in higher rates." The PSC's practice has been to consider on a case-by-case basis whether to permit an acquiring utility to recover from customers the differential between what it pays for acquiring a utility and the net book value of the acquired utility's assets.