
From: Allen.Maines@hklaw.com
Sent: Thursday, March 8, 2018 9:11 AM
To: Brooks, Jody L. - Chief Legal Officer
Subject: RE: Report on call with bond counsel concerning possible JEA sale of assets

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Jody print this for me please before our meeting.

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From: Maines, Allen (ATL - X48525)
Sent: Thursday, March 08, 2018 7:54 AM
To: Brooks, Jody L. - Chief Legal Officer (broojl@jea.com) <broojl@jea.com>
Subject: Report on call with bond counsel concerning possible JEA sale of assets

A lot of food for thought here suitable for internal discussion.

From: Stevens, David J (ATL - X48546)
Sent: Wednesday, March 07, 2018 5:55 PM
To: Maines, Allen (ATL - X48525) <Allen.Maines@hklaw.com>
Cc: Vaughan, Woody (ATL - X48574) <Woody.Vaughan@hklaw.com>
Subject: JEA sale of assets

Allen,

You asked that we review the PPA with regard to the ability of the JEA to sell its assets and whether or not the PPA contained restriction on the sale of assets one might typically see in a debt transaction. The PPA does not have a covenant preventing JEA's sale of assets. The PPA does, however, contain a rate covenant in PPA (Section 307) whereby JEA has agreed to establish and collect rates and charges for electric service at levels sufficient, together with available electric system reserves, to enable it to make all required payments to MEAG under the PPA and to pay all other amounts payable with respect to its electric system. While it would be hard for JEA to comply with this covenant if it no longer owned an electric system, there may be a loophole in that reserves can also be taken into account in order to comply. Therefore, it may be possible for JEA to sell its assets and set up a reserve sufficient to make payments under the PPA without violating this rate covenant.

Woody and I had a call with Liz Columbo and Barry Rothschild at Nixon Peabody (JEA's current bond counsel). They confirmed that they had discussed the sale of assets with Melissa at JEA, and that it seemed permissible for JEA to sell its assets but retain sufficient assets to continue making the PPA payments. They did not contemplate leaving JEA as an empty shell.

[On a side note, Nixon Peabody through another partner, Mitch Rappaport, represents MEAG as tax counsel for MEAG's bond issuances. Woody had Liz and Barry confirm they could talk to us before having the call. They have established a wall b/w Liz and Barry on the JEA bond counsel side and Mitch on the MEAG special tax counsel side.]

PPA Sections 204(h) and 702 also have an agreement, representation and warranty by JEA that the amounts payable to MEAG under the PPA constitute "Contract Debt" under JEA's Electric System Bond Resolution, which are payable as a "Cost of Operation and Maintenance" of the system. This provision established the MEAG PPA payments along with other O&M costs of the JEA which are paid as a first priority payment in the JEA waterfall of revenues, ahead of debt service payments to the holders of JEA Bonds. Nixon Peabody confirmed that this "Contract Debt" treatment is JEA's customary practice for this type of transaction and that they have entered into other such transactions before.

MEAG could conceivably argue that this provision somehow bootstraps the covenants in favor of JEA bondholders set forth below in more detail. We think such an argument would fail because the PPA does not grant MEAG the status of a bondholder under JEA's resolution. Also, Section 3 of the JEA bond resolution states that the resolution is a contract with the JEA bondholders for the equal benefit, protection and security of the holders of JEA's bonds – it does not mention the holders of Contract Debt as being beneficiaries. If MEAG were somehow able to "bootstrap" its way into being a beneficiary of the JEA resolution, it would benefit from the following JEA covenants:

- Section 13.D – Rate Covenant: JEA covenanted to collect rates and charges sufficient to pay 100% of O&M costs (including Contract Debts) and 120% of JEA bond debt service requirements.
- Section 13.G – Prohibition on Asset Sales: JEA covenanted not to sell all or substantially all of the physical assets of the electric system. "Substantially all" means assets having an aggregate depreciated cost of not less than 90% of the total depreciated cost of all the electric system assets.
- Section 13.I – Corporate Reorganizations: JEA reserved the right to effect a reorganization of its corporate structure in any manner whatsoever permitted by Florida law, so long as such reorganization does not adversely affect the security for the JEA bonds.

It is important to note that if JEA pays off or defeases all of its electric system bonds, the JEA electric system bond resolution goes away and the covenants above would be moot. We assume that any privatization of the JEA would include such a pay-off or defeasance.

Nixon is generally willing to assist and serve as a resource to JEA in this endeavor. They are currently working on JEA's annual continuing disclosure report which is due to be filed with bondholders in April, and thought it would be appropriate for us to review the disclosure language for accuracy relating to the current status of the MEAG transaction and privatization efforts. It is very important that we and you review this disclosure in light of what is being considered regarding the privatization of the JEA or any repudiation efforts of the PPA.

Nixon also noted that they think Orrick represented both MEAG and JEA at the time the PPA was entered into, which may be a helpful fact if JEA is seeking to challenge the PPA. We should find out from the JEA what law firms were involved in the PPA and what the roles were for each firm.

Other provisions to note:

Section 7.18 of the DOE Loan Guarantee Agreement between the DOE and SPVJ (MEAG's subsidiary special purpose vehicle that owns Project J), prohibits SPVJ from abandoning or permanently ceasing to pursue the construction or operation of Project J, **or voting in favor of such a proposal**. This may have been a factor in MEAG deciding not to terminate the Vogtle project.

Also, there are several Events of Default in Section 8.1 of the DOE Loan Guarantee Agreement that may be triggered depending on how JEA tries to relieve itself of its PPA liabilities:

- 8.1(f)(i) – JEA fails to pay amounts due for 90 days and MEAG fails to provide a cure plan within 120 days. Such a payment default can also be cured if MEAG makes the payments from other sources.
- 8.1(f)(iii) – the PPA is or becomes invalid, illegal, void or unenforceable against JEA, or is terminated prematurely.
- 8.1(f)(v) – JEA shall have repudiated or disavowed or taken any action to challenge the validity or enforceability of the PPA, and MEAG fails to contest such action in good faith by appropriate legal proceedings within 45 days.
- 8.1(g) – SPVJ agrees to release any material portion of the collateral securing the DOE loan (e.g., the payments under JEA's PPA).
- 8.1(n) – the bankruptcy, insolvency or dissolution of JEA.

Thanks,

Dave

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