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**Personal and Confidential**

October 29, 2019

**Subject: Revised Reply Instructions for the Project Scampi Invitation to Negotiate**

As described herein, JEA will be requesting Revised Replies contemplating strategic alternatives including, but not limited to, operational changes, structural changes, joint ventures, development partnerships, community ownership, corporate ownership, an initial public offering, private placement, technology conversion, oil and gas conversion, utility conversion, or another recapitalization of the business (the “Transaction”). All communications regarding this process should be directed to the Designated Procurement Representatives identified in JEA’s Invitation to Negotiate #127-19, as amended from time to time (the “ITN”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the ITN.

The purpose of this letter is to outline the procedures that will be used for Respondents to submit a Revised Reply for the Transaction. You have been provided access to the virtual data room, which includes the confidential information presentation (the “CIP”), a financial model (the “Respondent Financial Model”), and other supplemental materials (collectively, the “Due Diligence Materials”). The Respondent Financial Model includes rate projections (the “Committed Rates”) for three (3) years (the “Committed Rate Stability Period”) consistent with the minimum requirements of the ITN. Respondents should submit questions related to the Due Diligence Materials in writing to the Designated Procurement Representatives no later than November 11, 2019 at 12:00 PM EST. The process relating to submission of questions will be described more fully pursuant to a communication from the Designated Procurement Representatives. This letter, together with all other information provided to you in connection with the Transaction, is provided to you on a strictly confidential basis and its existence and contents, as well as any discussion held in connection with the Transaction, are subject to the duly executed confidentiality agreement by and between you and JEA (the “Confidentiality Agreement”).

**Revised Reply Procedures**

We are pleased to confirm the procedures for the Respondents to submit a Revised Reply. **We anticipate that Revised Replies will likely be requested for submittal no later than November 26, 2019, at 12:00 PM EST (the “Anticipated Revised Reply Date”), although such timing will be confirmed by the Negotiation Team as provided in section 3.3.3 of the ITN and memorialized in a formal Request for Revised Replies.** We expect to hold management presentations the weeks of December 9, 2019 and December 16, 2019. Your Revised Reply must be signed by an authorized representative and submitted via email to:

John McCarthy  
Vice President / Chief Supply Chain Officer  
JEA  
(904) 665-5544

Jenny McCollum  
Director of Procurement Services  
JEA  
(904) 665-4103

[StrategicAlternative@JEA.com](mailto:StrategicAlternative@JEA.com)

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JEA will be appointing individuals (the “Negotiation Team”) who will be responsible for reviewing Revised Replies and negotiating with Respondents throughout this negotiation phase of the ITN process. At any time, the Negotiation Team may seek clarification of the information provided in the Revised Replies. An additional letter regarding submission of a best and final offer (the “BAFO”) will be issued to those Respondents invited to continue to participate in the process after Revised Replies have been reviewed. The extent of negotiations conducted by the Negotiation Team with any Respondent between the submission of the Revised Replies and the BAFO will be solely determined by the Negotiation Team.

In order to enable the Negotiation Team to review the Revised Replies on a comparable basis, your Revised Reply must be submitted in writing and must comply with the requirements set forth in this letter, along with any other material requested in the Request for Revised Replies, and contain all material terms of your Revised Reply, including, but not limited to, the following:

- i. **Identification of the Respondent:** Please provide the full name and identity of the Respondent and a description of the principal business(es), operational and/or financial qualifications (including market capitalization, net worth, fund specifications (e.g., total capital, un-invested capital, fund duration, etc.), credit ratings as applicable, capital duration, etc.), major shareholders, members or limited partners in excess of 5.0% (direct and indirect, including, but not limited to, ultimate parent), location of headquarters and type of entity or organization. Please provide a complete schedule of assets and operations in Florida. If the Respondent is a special purpose entity or a controlled subsidiary, in addition to the information provided above, please identify the controlling person of such entity and list any other direct or indirect co-owners and percentages of consideration expected to be contributed by each co-owner.
- ii. **Gross Proceeds:** In order for JEA to determine the highest and best value to the constituents and customers of JEA, Respondents are requested to submit Revised Replies indicating the amount of gross proceeds in U.S. dollars (the “Gross Proceeds”) to be paid in cash at closing, expressed as a specific figure and not a range, that Respondents would be prepared to offer JEA. With respect to the Water System, in determining Gross Proceeds, Respondents should refer to the “Water System” tabs in the Respondent Financial Model. With respect to the Electric System, Respondents should specify the Gross Proceeds under the scenario described below (the “Current Pro Forma Scenario”). In addition, to the extent that the Gross Proceeds would change, if at all, under the adjusted scenarios reflected below (the “Adjusted Scenarios” and with the Current Pro Forma Scenario, the “Scenarios”), please indicate the amount of such change. For the avoidance of doubt, the Scenarios do not apply to Respondents submitting Revised Replies for only the Water System. To provide context for the Scenarios, in the event JEA consummates a sale of certain assets pursuant to the ITN process, JEA will evaluate which assets and liabilities which will remain with the selling entity (“Legacy JEA”) and which will be assumed by a new entity (“NewCo”). A key component of this evaluation and the assessment of the Revised Replies relates to the treatment of the 20-year power purchase agreement (the “Vogtle PPA”) with the Municipal Electric Authority of Georgia (“MEAG Power”) for 206 megawatts of capacity and related energy from MEAG Power’s interest in nuclear Units 3 and 4 (the “Units”) under construction at the Alvin W. Vogtle Nuclear Plant in Burke County, Georgia. The Vogtle PPA requires JEA to pay MEAG Power for the capacity and energy at the full cost of production plus a margin over the term of the Vogtle PPA. As the Units remain under construction, the full cost of production and annual PPA payments are estimated based the current status of construction and the expected costs of O&M following commercial operation of the Units (the “Projected PPA Costs”). The Units are expected to be placed in service in November 2021 and November 2022, respectively. For purposes of determining the Gross Proceeds, Respondents should assume a Transaction would be structured to ensure that costs related to ongoing or future litigation arising from the Vogtle PPA would be borne by Legacy JEA, and that the Projected PPA Costs and costs associated with any potential cost overruns under the Vogtle PPA, would be borne as detailed below.

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- *Current Pro Forma Scenario:* NewCo assumes the benefits and obligations of the Vogtle PPA, including 206 megawatts of power and all customers associated therewith. For purposes of Revised Replies, Respondents should assume that the Projected PPA Costs are included in the “Current Pro Forma Case” in the Respondent Financial Model. For the purposes of this Scenario, please disregard any tax consequences associated with any MEAG Power debt related to the Vogtle PPA.
- *Adjusted Scenario A:* Legacy JEA will retain the Vogtle PPA and will deliver 206 megawatts of power acquired through the Vogtle PPA, and charge through costs associated therewith, to customers in Jacksonville.
  - Legacy JEA and NewCo would enter into a billing and collection agreement, under which a separate line item charge reflecting the full amount of Legacy JEA’s costs under the PPA will be included on the consolidated bills which NewCo sends to electricity customers (which NewCo would collect and remit to Legacy JEA).
  - For purposes of Revised Replies, Respondents should assume such costs are the Projected PPA Costs included in the Scenario A Vogtle Adjustment tab in the Respondent Financial Model.
  - Appropriate other agreements would be entered into to govern the ongoing relationship between Legacy JEA and NewCo.
- *Adjusted Scenario B:* Legacy JEA will retain the Vogtle PPA and will deliver 206 megawatts of power acquired through the Vogtle PPA, and charge through costs associated therewith, to customers in Jacksonville an amount equal to the rate that the Respondent would pay to a “Qualifying Facility” (as defined in the Public Utilities Regulatory Policy Act of 1978, as amended) for 206 megawatts of energy and capacity in JEA’s service territory (the “Avoided Cost”).
  - Legacy JEA and NewCo would enter into a billing and collection agreement, under which a separate line item charge reflecting the Avoided Cost will be included on the consolidated bills that NewCo sends to its electricity customers (which NewCo would collect and remit to Legacy JEA).
  - Costs above the Avoided Costs would be borne and paid by Legacy JEA using a portion of the Gross Proceeds (the “Stabilization Fund”). The billing and collection agreement would provide a mechanism for NewCo to collect and remit to Legacy JEA any shortfall in the event the Stabilization Fund is fully depleted, although no such shortfall should be assumed to exist.
  - Appropriate other agreements would be entered into to govern the ongoing relationship between Legacy JEA and NewCo.
- *Adjusted Scenario C:* Legacy JEA shall be responsible for satisfying all Vogtle PPA obligations.
  - Respondents should assume that the Stabilization Fund is sufficient to cover all anticipated obligations remaining with Legacy JEA from and after the Closing related to the Vogtle PPA. NewCo would be fully responsible for delivering adequate power to its customers.
  - Legacy JEA and NewCo would enter into a billing and collection agreement that would provide a mechanism for NewCo to collect and remit to Legacy JEA any shortfall in the

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event the Stabilization Fund is fully depleted, although no such shortfall should be assumed to exist.

If there is an alternative scenario or structure or a modification or derivative of any of the Scenarios that the Respondent would like to recommend (the “Alternative Scenario”), the Respondent should provide a detailed discussion of such Alternative Scenario. In all cases, the Respondent should indicate if there is a strong preference for any Scenario (the “Respondent Preferred Scenario”) presented in the Revised Reply as well as the rationale for any such recommendation.

Please assume the following for purposes of the valuation:

- a) Valuation Date: The Gross Proceeds should reflect a valuation date as of September 30, 2020;
  - b) Debt / Other Liabilities: The Gross Proceeds should assume assets are acquired on a debt-free, cash free basis;
  - c) Tax Step-Up: The Gross Proceeds should assume there is a tax step-up; and
  - d) Working Capital: The Gross Proceeds should assume zero working capital
- iii. **Material Conditions, Terms or Assumptions**: Please provide a detailed description of any material conditions, terms or assumptions upon which your Revised Reply is based, whether express or implied, and whether financial, operational, tax or otherwise, and any key issues that could have material impact on your Revised Reply and the Gross Proceeds reflected therein. Specifically, please describe your assumptions on the following items:
- a) Valuation Methodology: Please describe the valuation methodologies used in preparing your Revised Reply.
  - b) Key Changes: Please describe any key changes you made that differ from the CIP and the Financial Information;
  - c) Key Future Operational Changes: Please describe any key changes the Respondent intends to make to JEA’s operations, including pursuant to the McKinsey initiatives described in the CIP and in the Financial Information;
  - d) Key Community Engagement Factors: Please describe in detail the Respondent’s plan for maintaining or exceeding JEA’s existing levels of: i) community engagement, ii) interagency coordination on emergency operations (e.g., storm events, etc.), iii) environmental stewardship, and iv) other relevant community programs that will be undertaken by the Respondent for the betterment of northeast Florida;
  - e) Rates: Please provide any changes or assumptions that have been made to key inputs related the Respondent Financial Model. While Respondents have been provided financial projections and rate expectations for the Committed Rate Stability Period, it is important that Revised Replies provide a detailed description of the key assumptions made by Respondents regarding the rate path beyond the Committed Rate Stability Period, including, at a minimum, the following items:
    - Rate base
    - Targeted equity layer and return on equity
    - Debt capitalization and cost of debt

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- Customer demand
- State and local taxes other than income taxes which should include the Respondent's anticipated property taxes
- Operations and maintenance ("O&M") expense
- Anticipated amount and timing of proposed O&M savings
- Capital expenditures by functional area and utility system
- Expected base revenue requirement
- Dispatch costs and drivers including fuel and purchased power
- Anticipated amount and timing of any fuel or purchased power savings
- Estimates of forward commodity prices
- Franchise taxes
- Other revenue
- Expected all-in revenue requirement

To the extent that any of the above assumptions vary between the Scenarios (and, as applicable, any Alternative Scenario), Respondents should clearly identify the impact of these differences on the Gross Proceeds. Respondents should assume that the Transaction shall not be contingent on approval of tariffs, rate proceedings or similar regulatory administration other than those required to establish the Committed Rates under Florida law. Similarly, the Transaction will not include any purchase price adjustments or similar mechanism other than those that are related to the Committed Rates, Committed Rate Stability Period and/or those that would be considered normal and customary. Revised Replies should assume that the Respondent will bear the full risk of any regulatory requirements beyond Committed Rate Stability Period.

- iv. **Minimum Requirements:** Please provide an overview of the Transaction that the Respondent is proposing (the "Proposed Transaction") in the Revised Reply. Please provide an overview of major terms, conditions and significant negotiation points that may impact the Gross Proceeds. Specifically, identify how the Proposed Transaction allows JEA to achieve, or exceed, the following minimum requirements set forth in the ITN:

- Financial
  1. Greater than \$3 billion of value to the City of Jacksonville <sup>1</sup>
- Customers
  1. Greater than \$400 million of value distributed to customers (\$350+ rebate to each JEA account; \$1,400+ rebate for customers with electric, water, sewer and irrigation accounts);
  2. At least three years of contractually guaranteed base rate stability for customers

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<sup>1</sup> Please see Addendum 4, Attachment 14 – Net Proceeds Calculation of the ITN for additional detail on this calculation.

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- Environmental
  1. Commitment to develop and provide the City of Jacksonville and the Duval County Public School system with 100% renewable electricity by the year 2030<sup>1</sup>
  2. Commitment to develop and provide 40 million gallons per day of alternative water capacity for Northeast Florida by the year 2035<sup>2</sup>
- Community Impact
  1. Protection of certain employee retirement benefits;<sup>3 4</sup>
  2. Maintenance of substantially comparable employee compensation and benefits for three years;
  3. Retention payments to all full-time employees of 100% current base compensation<sup>5</sup>
  4. Commitment to new headquarters and employees in downtown Jacksonville, contributing to the economic development of the community<sup>6</sup>

Respondents should assume that the above requirements were established to provide a minimum acceptable threshold for consideration and that Revised Replies should reflect the comprehensive nature of this opportunity and the competitiveness of this ITN process. With respect to the value to customers described above, such value is intended to be funded with a portion of the Gross Proceeds. However, if Respondents have other proposals for how to deliver such value, Respondents should specify such proposals in as much detail as possible. To the extent that your Revised Reply pertains solely to part of JEA's operations (e.g., the Electric System only, the Water System only, etc.), please indicate so and confirm your willingness to partner with another organization to allow JEA to achieve its minimum requirements and/or if you have already identified one or more partners.

- v. **Feasibility:** The Revised Reply should include an assessment of any contingencies associated with the Proposed Transaction. Respondents should identify any structural, legal, political or financial issues or modification that you believe are necessary to ensure the feasibility of the Proposed Transaction. The discussion should highlight key issues and concerns as well as the any benefits resulting from the Respondent's specific recommendations.
- vi. **Financing Sources:** The Revised Reply must include an indication (with as much specificity as possible) of your expected sources of funds (including the amounts of debt and equity financing necessary to fund the Proposed Transaction), as well as an indication of the estimated timing and steps required to secure such financing. Please note that Respondents should not submit a Reply that includes obtaining financing for the Proposed Transaction as a condition to closing. To the extent that you will require incremental equity funding from potential third-party co-investors to fund the Gross Proceeds, please clearly indicate your intended approach to obtaining such funding, including the names of such potential co-investors.
- vii. **Internal Approvals Process:** Your Revised Reply should include a statement regarding the level of review, authorization and approval within your organization that the Proposed Transaction has received to date and an indication of any anticipated need (and associated timing) for further internal authorizations, approvals or

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<sup>1</sup> Renewable electricity and alternative water to be provided at new or existing tariffs at a price equal to or less than the applicable tariff rate.

<sup>2</sup> Renewable electricity and alternative water to be provided at new or existing tariffs at a price equal to or less than the applicable tariff rate.

<sup>3</sup> Certain employee-related minimum requirements are subject to collective bargaining, as applicable.

<sup>4</sup> Jacksonville City Council passed legislation on September 24, 2019 related to addressing this ITN requirement.

<sup>5</sup> Certain employee-related minimum requirements are subject to collective bargaining, as applicable.

<sup>6</sup> JEA's new headquarters is currently in the initial stages of development in downtown Jacksonville. The process goal is a commitment to the current downtown headquarters project.

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waivers (including committee, board or shareholder approvals) and any other material conditions or time constraints related to closing. Please provide an estimate of the aggregate timing you would require to obtain the necessary approvals to enter into a definitive agreement.

- viii. **Regulatory / External Approvals and Conditions:** Please describe any third-party consents, approvals, notices or conditions (including regulatory or governmental approvals) that you believe are required to complete the Proposed Transaction (including, but not limited to, the procedures for obtaining all necessary government approvals and satisfying government conditions, including regulatory or antitrust processes). As part of your Revised Reply, Respondents should include a comprehensive assessment of the Federal Energy Regulatory Commission's review of the Proposed Transaction under Section 203(a)(4) of the Federal Power Act ("FPA"). The Respondent should address whether FERC will conclude that the Proposed Transaction is consistent with the public interest by addressing its effect on (i) competition; (ii) rates; and (iii) regulation. In addition, the Respondent should also discuss whether FERC will find that the Proposed Transaction will result in inappropriate cross-subsidization or pledge or encumbrance of utility assets. To the extent the Proposed Transaction is not consistent with FPA Section 203(a)(4), the Respondent should detail specific actions that will be required to mitigate any potential challenges and facilitate the necessary FERC approvals. In addition, please provide an indication of expected timing to obtain, and your previous experience in obtaining, any such approvals or to satisfy such notices or conditions and what commitments you would make to ensure expeditious completion of the Proposed Transaction. You should highlight any risks to satisfying such conditions or obtaining such necessary approvals and the strategies you intend to implement to mitigate these risks. Please identify any other material impediments to promptly completing the Proposed Transaction.
- ix. **Prior Acquisitions / Investments:** Your Revised Reply should include a description of material investments / acquisitions you have completed over the last five years as evidence of your capability to close the Proposed Transaction in a timely fashion.
- x. **Advisors / Contact List:** Please provide the names and contact information of any financial, legal, consultant, or other advisors who you have engaged or plan to engage regarding the Proposed Transaction. Additionally, please provide a contact list of those persons within your organization who are involved in the Proposed Transaction and with whom the Negotiation Team can discuss your Revised Reply.
- xi. **Due Diligence:** Please provide an outline of key diligence areas as part of your Revised Reply as well as a description of the nature, extent and timing of the due diligence efforts that you and your proposed external debt or equity financing sources, if any, will require prior to your being able to enter into a binding definitive agreement.
- xii. **Other Information:** Please include any other information that you deem relevant to the Negotiation Team's assessment of your Revised Reply or that you believe would be helpful to the Negotiation Team in distinguishing your organization and its capabilities to consummate the Proposed Transaction.

Any omission or deviation from these requirements should be explained in full and will be taken into account in the review of your Revised Reply.

## Coordination

To the extent that the Respondent is awarded the contract contemplated by the ITN, the successful Respondent is expected to work with JEA and its advisors to develop a comprehensive transition plan that will detail the coordinated communication and efficient transfer of JEA's assets, operations and customers to the Respondent. The Respondent and JEA will work collaboratively to address all necessary closing conditions and communication with the Board of Directors, the Jacksonville City Council, employees, vendors, State and local community leaders, and JEA's customers. Respondent's should confirm your understanding of JEA's objectives and willingness to work with JEA to ensure a

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clear, transparent path to close while minimizing any inconvenience or impact to JEA's customers. Additionally, Respondents should provide your preliminary views related to the communication of the Transaction to JEA's key stakeholders and customers.

### General

Neither this letter nor the release of the Due Diligence Materials or any other information to you or your representatives constitutes an offer to sell or an invitation to purchase or tender for any securities or any of the businesses or assets of JEA or any of its affiliates or subsidiaries or to enter into any other transaction or commercial agreement. JEA, the Advisors and their respective affiliates and representatives expressly disclaim any and all liability for all statements or information in this letter, the Due Diligence Materials and any other materials furnished, made available or communicated to you or your representatives. Nothing in this letter, the Due Diligence Materials or any other materials furnished, made available or communicated to you or your representatives will impose any obligation upon JEA, the Advisors or any of their respective representatives or affiliates to provide any specific information to any party. By submitting a Revised Reply, you acknowledge that you are relying on your own independent investigation and evaluation of the Proposed Transaction and that you accept the sale process as set out in this letter. JEA's interpretation of the procedures, terms and conditions set forth in this letter and the provisions of any other materials furnished, made available or communicated to you or your representatives shall be final and binding on all Respondents.

JEA expressly reserves the right, in its sole discretion and without giving prior notice or reasons therefor (and without liability on the part of JEA or its representatives or affiliates), at any time and in any respect, to amend, waive, suspend or terminate the procedures, terms and conditions by which you or other Respondents submit Revised Replies or by which JEA may pursue negotiations with you or other Respondents; to reject or accept any Revised Reply for any or no reason (including, without limitation, rejecting any Revised Reply as a result of any breach of the Confidentiality Agreement or failure to comply with this letter); to enter into final definitive agreements regarding the Proposed Transaction with any person at any time or abandon the process without prior notice to you or any other person; to negotiate with one or more persons with respect to the Proposed Transaction (regardless of whether such persons have previously received an invitation to submit a Revised Reply) by any means or process determined by JEA in its sole discretion, and to exercise any other right reserved to JEA by the terms of the ITN. If you are not invited to proceed in this process, you will be required to return or destroy all Confidential Information (as such term is defined under the Confidentiality Agreement) in accordance with the Confidentiality Agreement.

JEA expressly reserves the right, in its sole discretion, to terminate or suspend discussions with you and accept any Revised Reply or other reply or alternative at any time, without any legal obligation or liability of any kind whatsoever to you or your representatives. In no circumstances will JEA, the Advisors or any of their respective affiliates or representatives have any liability in respect of any loss whatsoever that may result from your participation or exclusion in or from the process described in this letter or any departure from the procedures contemplated herein, and you shall not be entitled for any reason to be reimbursed for any costs, expenses or other liabilities incurred by you or your representatives in connection with or in reliance upon the foregoing procedures or this process. No acceptance or selection by JEA of any Respondent or other reply or alternative shall be binding on JEA or its affiliates or representatives. JEA will only be subject to a legal obligation in relation to the Proposed Transaction upon the execution of a definitive and binding written agreement by the parties thereto, and, notwithstanding anything to the contrary therein, no legal obligation shall arise as a result of any Revised Replies, replies, alternatives, indications of interest, letters of intent, term sheets, or any other preliminary written agreements (whether or not executed), nor from any written or verbal acceptance of any of the foregoing.

All aspects of the process, including, but not limited to, the existence and contents of this letter, the CIP, the Due Diligence Materials and any additional or other due diligence materials or information obtained from JEA or any of its representatives, all Revised Replies, the existence of any Revised Replies, your involvement in this process and all discussions or negotiations with JEA and the Advisors are subject to the terms and conditions of the Confidentiality



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Agreement, which remains in full force and effect. If you do not wish to submit a Revised Reply, please inform us immediately and return or destroy all Confidential Information in accordance with the Confidentiality Agreement. Your determination not to proceed and your return or destruction of the Confidential Information in no way limits your obligations set forth in the Confidentiality Agreement.

This letter shall be governed by and construed in accordance with the laws of the State of Florida. Your participation in the process outlined above shall constitute your agreement with the terms of this letter.

### **Communications**

Respondents should direct all communications regarding any aspect of the Proposed Transaction to the JEA Designated Procurement Representatives as outlined in this letter and the ITN. As a reminder, under no circumstances should you make any contact, directly or indirectly, with the management, directors, employees, customers, suppliers or representatives of JEA, the Advisors or their affiliates, or any regulatory agencies, credit rating agencies or any other person with respect to this process or the Proposed Transaction.

Thank you again for your interest in the Proposed Transaction. If you have any questions regarding the Proposed Transaction, the process outlined in this letter or information to be provided in your Revised Reply, please do not hesitate to contact the JEA Designated Procurement Representatives directly.

Your interest in the ITN process and your observance of the foregoing is appreciated. We look forward to working with you.