

Gainesville Regional Utilities Initial Biomass Project Risk Analysis

October 7, 2013

(Preliminary – Subject to Change as additional information becomes available)



nFront Consulting

- Principals have 25 to 40 years experience
- Pertinent Areas
 - Evaluating and helping to negotiate transactions
 - PPA's
 - Evaluating power supply resources
 - Costs, Risks, Operations
 - Including Biomass
 - Utility and power plant management
 - Operations
 - Maintenance
 - Fuel procurement

Assignment: **Independently** Identify and Assess Potential that Benefits Could be Different

- **Independently** identify and assess certain uncertainties
 - Risk that benefits from GRU ownership would be less
 - Potential that benefits may be higher
- Relative to the Base-line Analyses dated 9/19/2013 presented by GRU
- Process
 - Qualitative assessment
 - Sensitivity analyses
 - Probabilistic risk assessment

Qualitative Risk Assessment

Fixed Costs

- PPA Non-fuel Energy Price v. GRU debt service
- Property taxes
- Fixed O&M
- Insurance
- Interest rate risk
- Investment and Other Costs to Comply with Changes in Law
- Counterparty credit risk
- Sales taxes

Fuel and Power Costs

- Fuel price conversion factor
- Biomass fuel price levels
- Market price levels
- Fuel hedging
- Fuel supply risk
- Replacement/ Surplus power
- Ancillary services

Variable Costs

- Variable O&M charges/costs
- Emissions policy related charges & costs
- Environmental regulations
- Shutdown charges
- Renewables regulations

Operating Conditions

- Unit availability
- Dependable capacity
- Dispatch flexibility
- Unit efficiency
- Transmission and losses
- Real-time v. day-ahead scheduling
- GRU load uncertainty

Key:

- Issues modeled in Sensitivity Analysis and Risk Analysis
- Issues where PPA and ownership risks are similar
- Issues marginally beneficial to GRU (but not modeled)

Benefits are Not Very Sensitive to Certain Key Uncertainties

Similar or Somewhat Less Exposure under GRU Ownership and PPA Options

Fixed Costs	Fuel and Power Costs	Variable Costs	Operating Conditions
<ul style="list-style-type: none">• Investment and Other Costs to Comply with Changes in Law	<ul style="list-style-type: none">• Prevailing Biomass fuel price levels• Market price levels	<ul style="list-style-type: none">• Emissions policy related charges & costs• Environmental regulations	<ul style="list-style-type: none">• Transmission and losses

Key Assumptions and Considerations

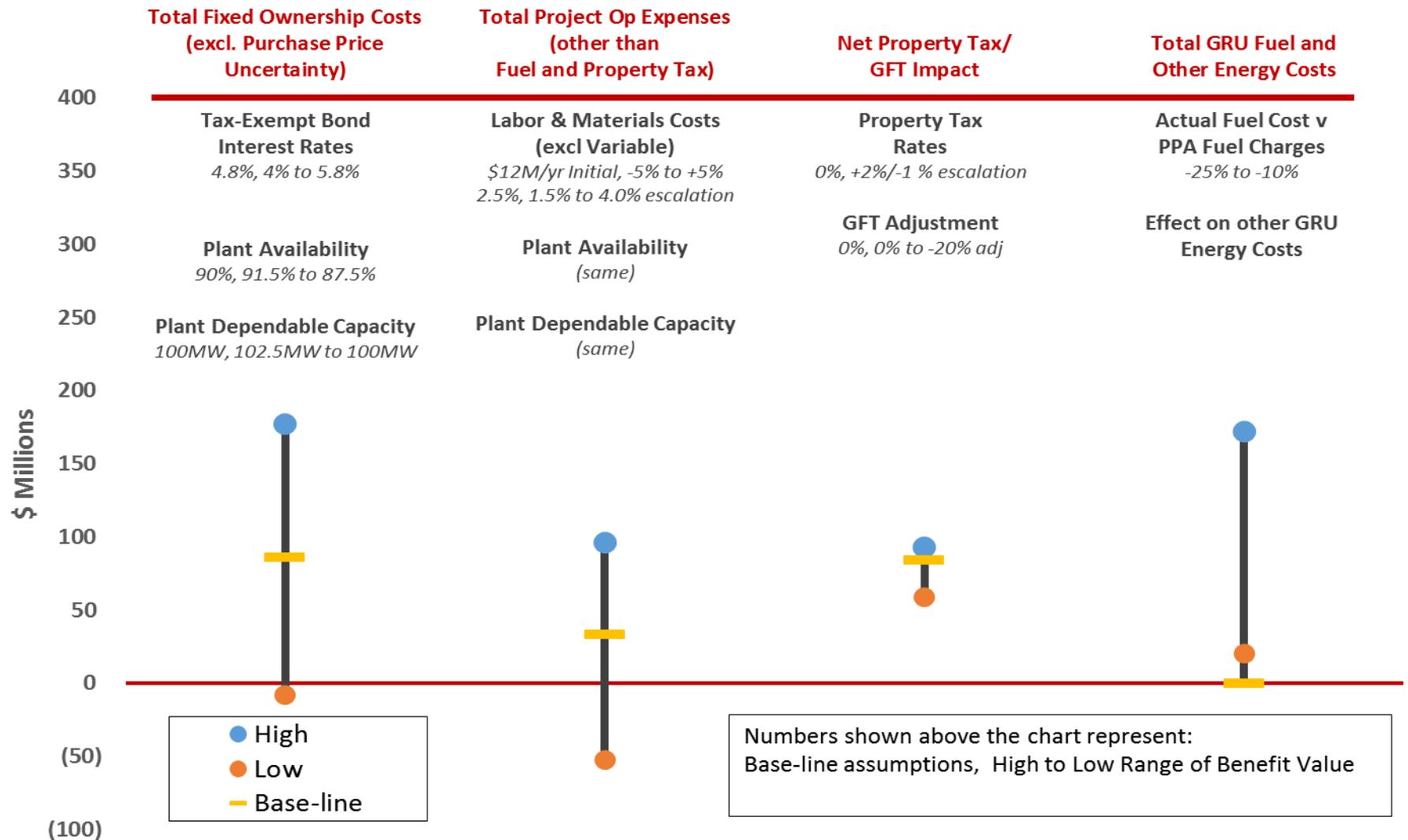
■ Key Considerations

- Analyses based on a single Reference Purchase Price Assumption
 - To evaluate uncertainties
 - Not a Recommended or Proposed Price
- Analyses with and without NewCo
 - Return to NewCo Partner would be minimal
 - NewCo Income Tax Liability negligible
- Assume plant appropriately constructed – “Normal Standards”
 - Construction meets appropriate standards
 - Compliance with All Existing Permits
- Reflect GRU Operating Costs from year 1
- Assume GREC receives 1603 Grant

Key Assumptions and Considerations

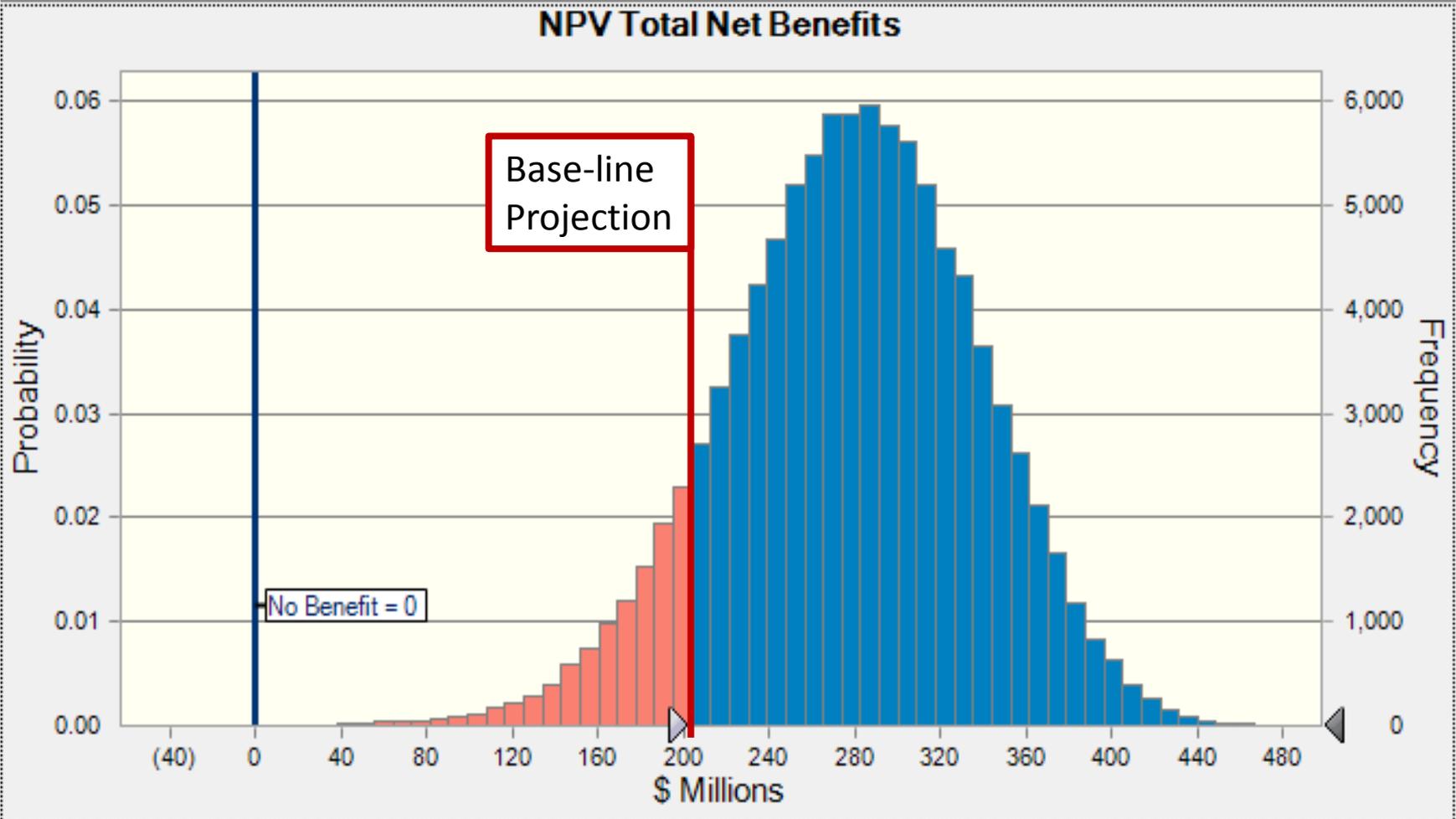
- Key Base-line Assumptions Provided to Us
 - Interest Rates
 - Operating Expense Levels
 - Major Maintenance/Capital Expense Allowances
 - Property Tax Rates and Assessed Value
 - Escalation

Sensitivity Analyses – Used to Identify Key Uncertainties



Risk Analysis – With 1603 Grant

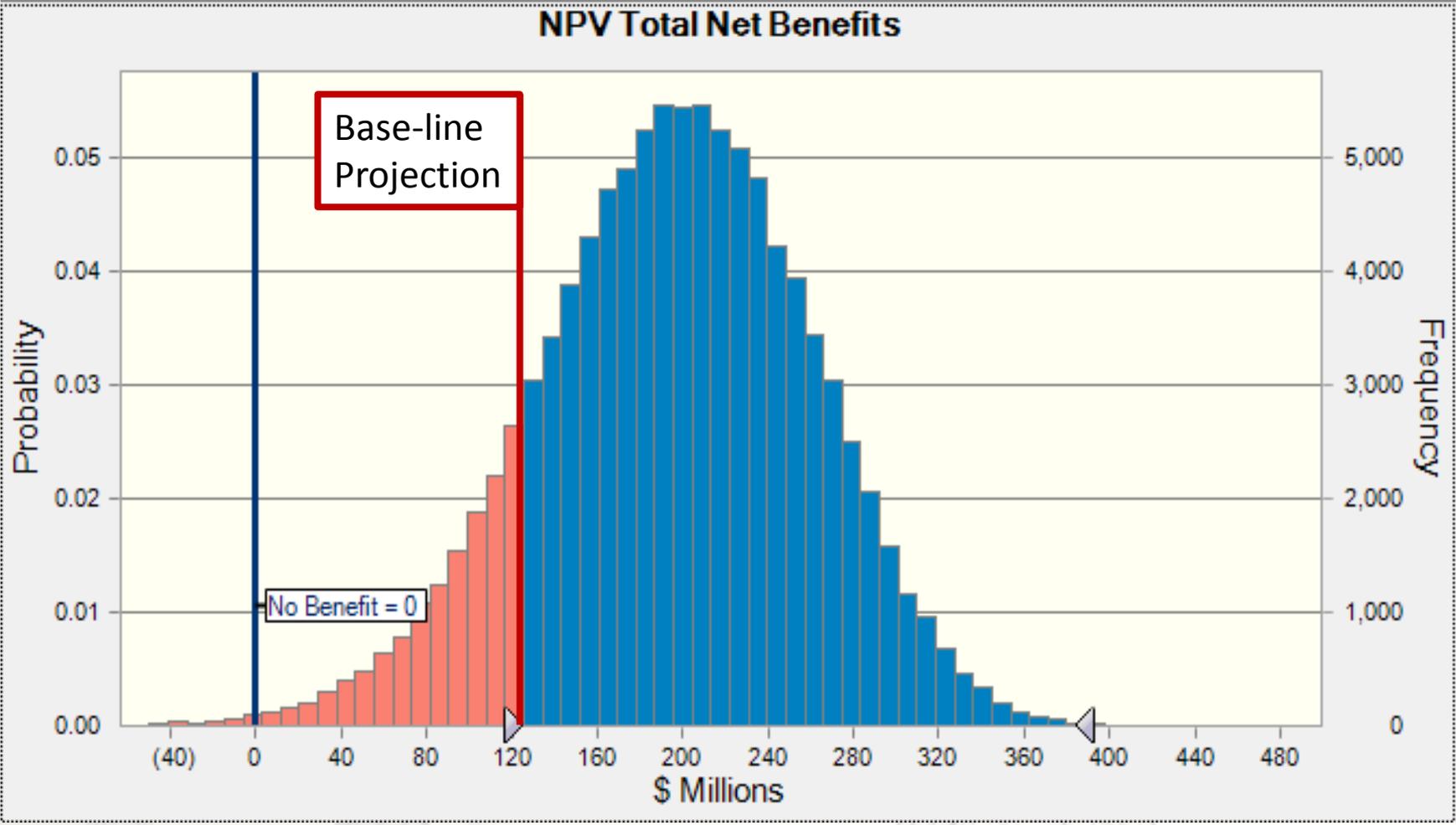
Distribution of Projected Net Benefits to GRU



Assumes Reference Purchase Price, with NewCo and \$120 million 1603 Grant

Risk Analysis – No 1603 Grant

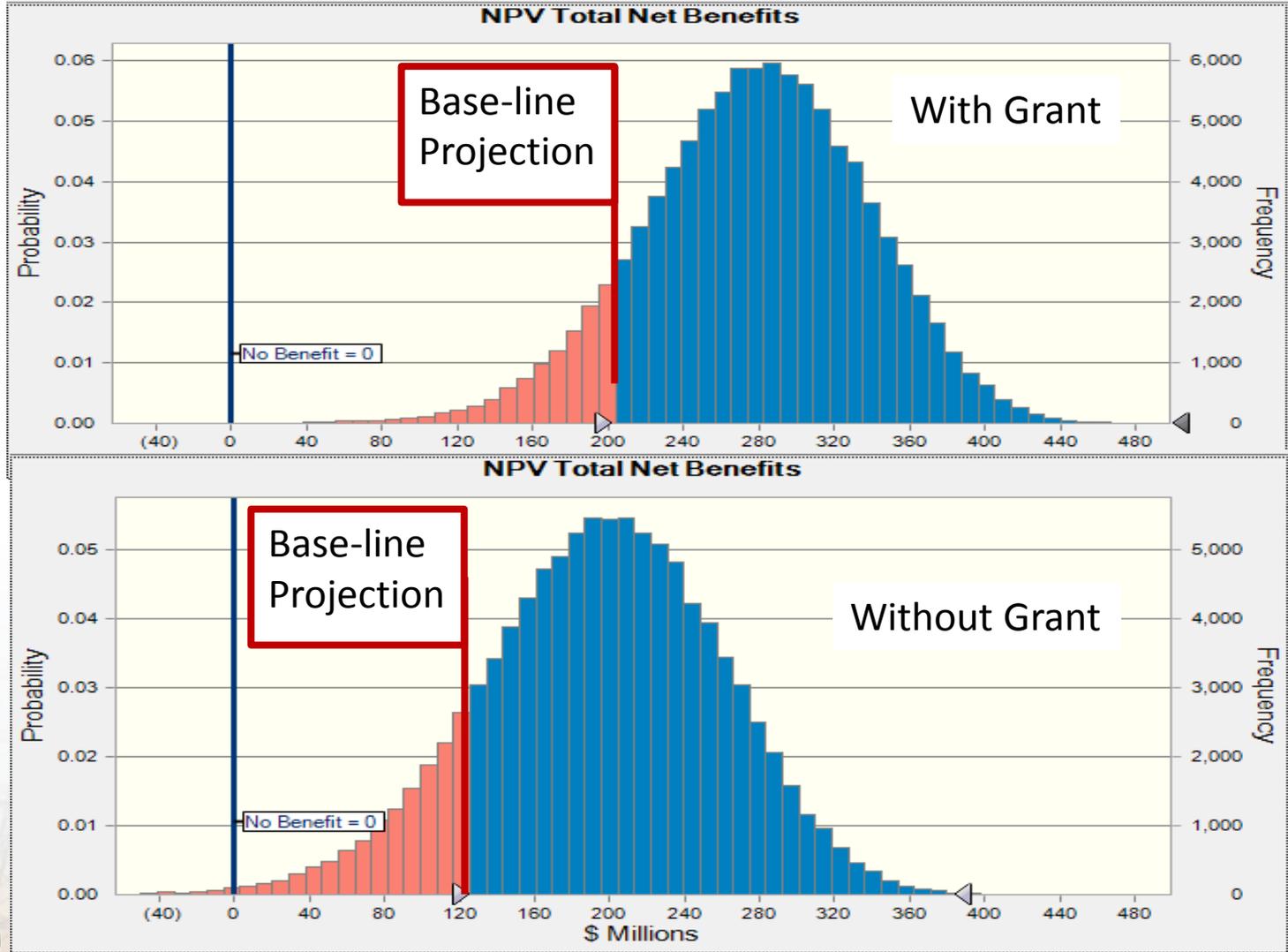
Distribution of Projected Net Benefits to GRU



Assumes Reference Purchase Price, No NewCo or 1603 Grant

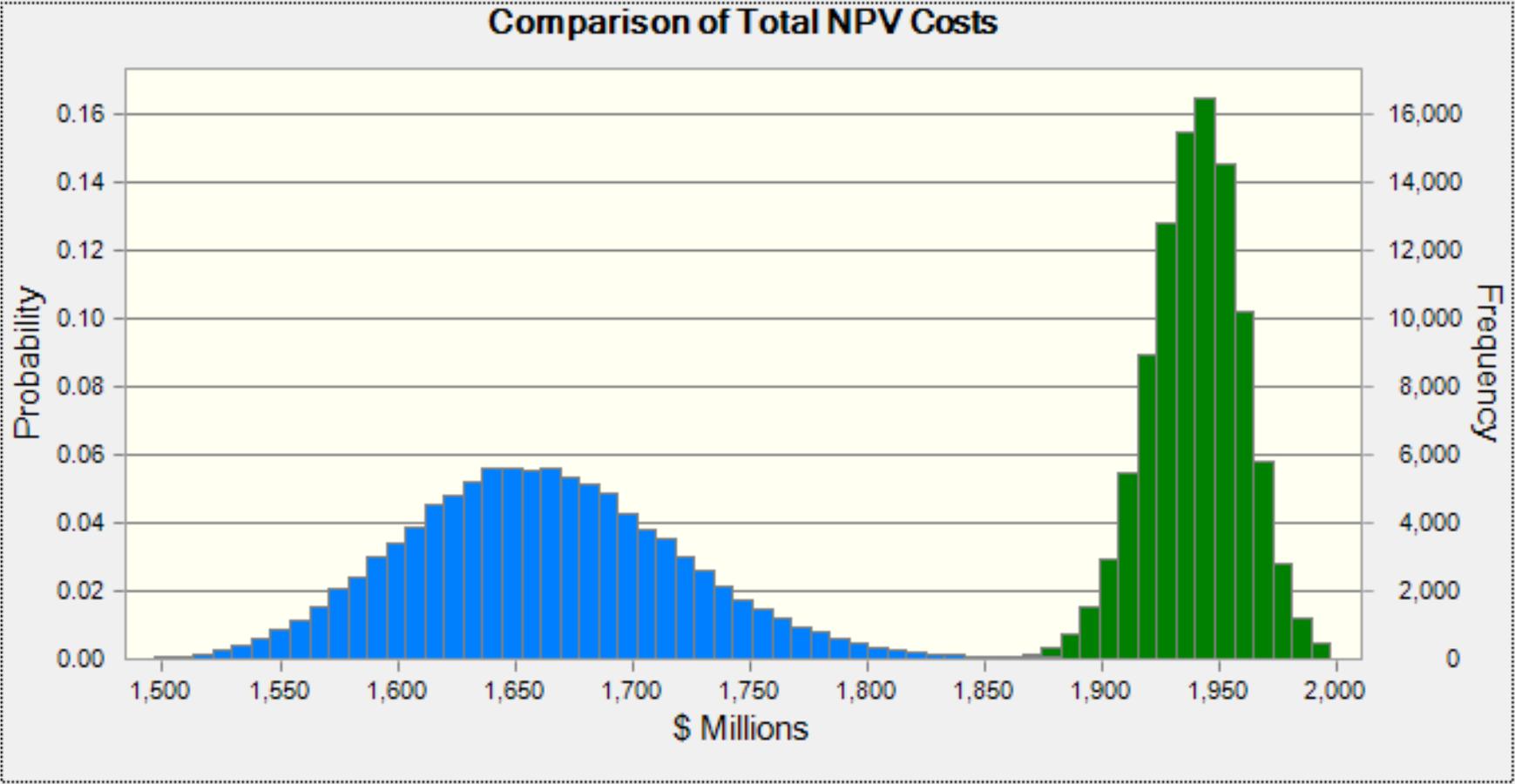
Risk Analysis – With and Without 1603 Grant

Distribution of Projected Net Benefits to GRU



Risk Analysis – With 1603 Grant

Comparison of NPV Costs for Ownership v PPA Options

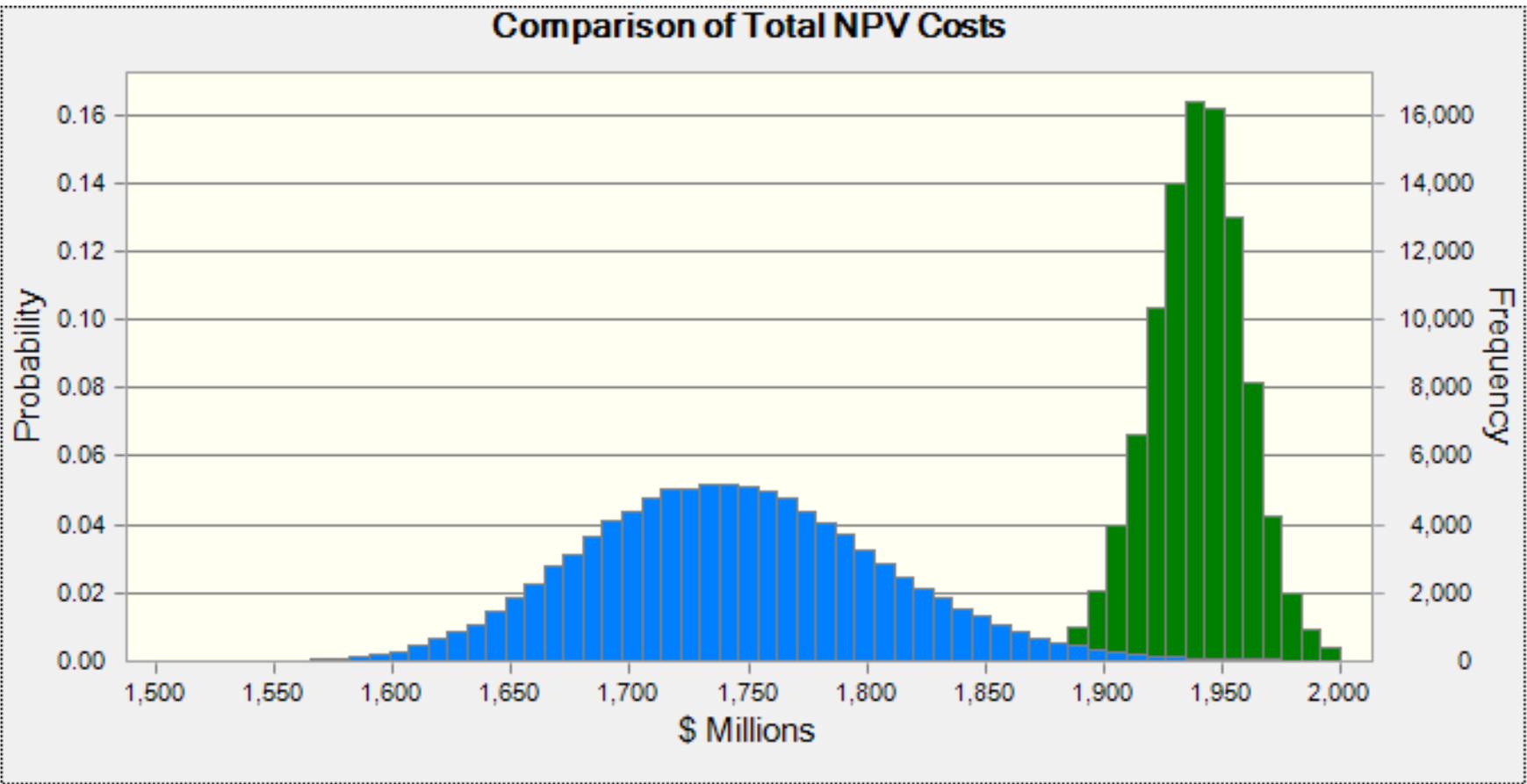


■ Total Ownership Costs ■ Total PPA Costs

Assumes Reference Purchase Price, with NewCo and \$120 million 1603 Grant

Risk Analysis – No 1603 Grant

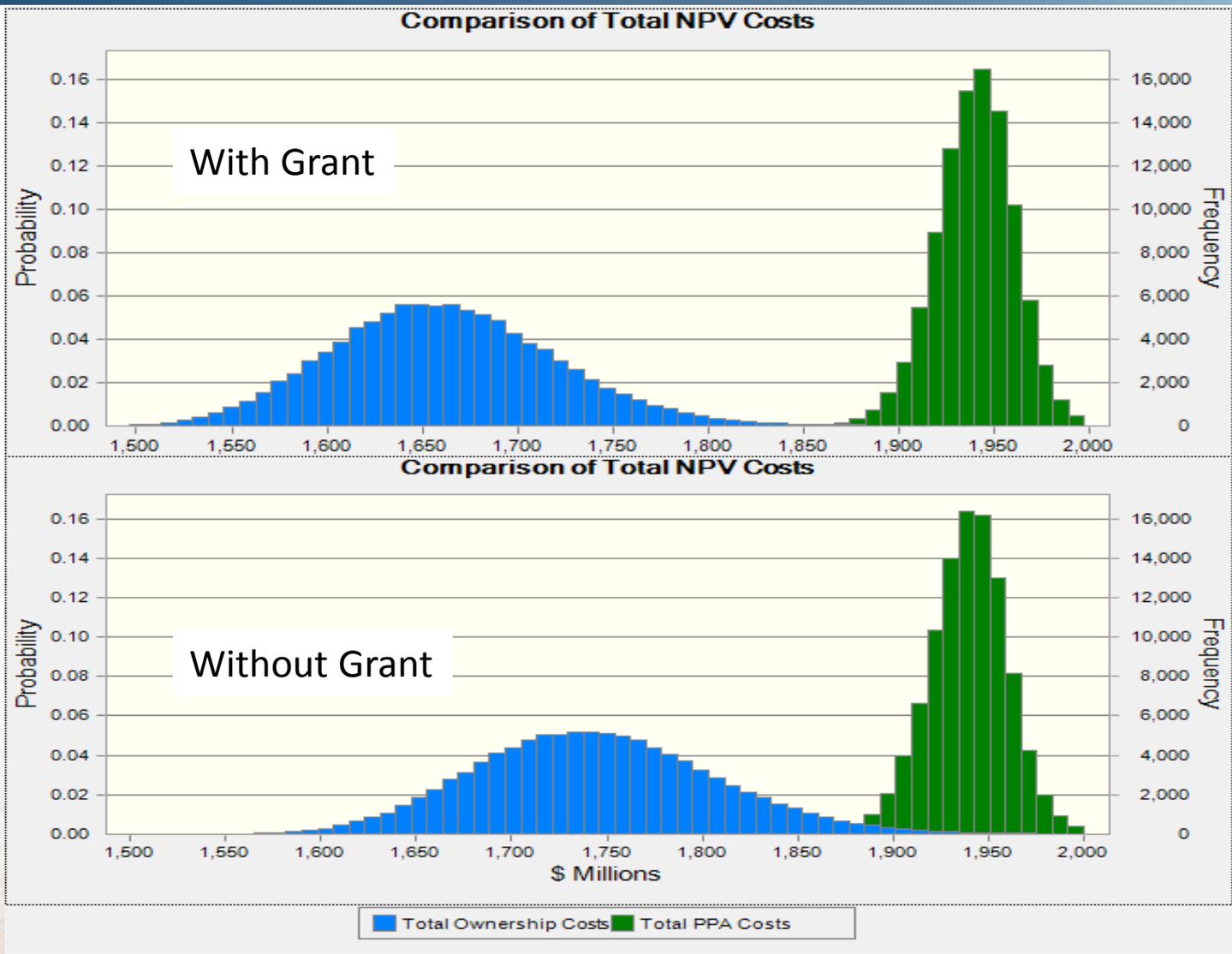
Comparison of NPV Costs for Ownership v PPA Options



Assumes Reference Purchase Price, No NewCo or 1603 Grant

Risk Analysis – With and Without 1603 Grant

Comparison of NPV Costs for Ownership v PPA Options



Conclusions

1603 Grant is Important, but Not Essential

1. Projected benefits under the Ownership Option are reduced -- but not eliminated -- if the 1603 Grant is not retained.
 - Alternatively, Purchase Price can be adjusted

2. Uncertainties regarding the 1603 Grant may be managed by:
 - a. Making conservative assumptions about retention of the Grant until status is more certain
 - b. Further considering options for retaining the Grant
 - i. NewCo
 - ii. Other options

Conclusions - Key Risks Identified with Potential Risk Management Strategies

3. Scenarios that could cause benefits of ownership to be lower (than projected under the Base-line assumptions) may involve:

Key Uncertainties	Risk Management Approach
Higher bond interest rates	Limit exposure by making the proposal contingent on financing on “reasonable” terms
Operating cost levels not as much lower as projected (Excluding inflation effects)	Further develop O&M Plans (Prior to offer and prior to closing)
Higher than projected inflation of labor, materials and insurance	Manage as per current power plants
Lower reductions in Property Taxes	Policy driven

Conclusions - Key Risks Identified with Potential Risk Management Strategies (Con't)

3. Scenarios that could cause benefits of ownership to be lower (than projected under the Base-line assumptions) may involve:

Key Uncertainties	Risk Management Approach
Extraordinary costs or significantly lower plant availability relative to base-line assumptions (due to construction deficiencies)	Operating experience will accrued prior to closing (~ 6 months) Limit exposure through careful pre-purchase evaluation during due diligence. Negotiate representations and warranties in the purchase agreement to further limit exposure.

Conclusions

Base-line Projections are Conservative

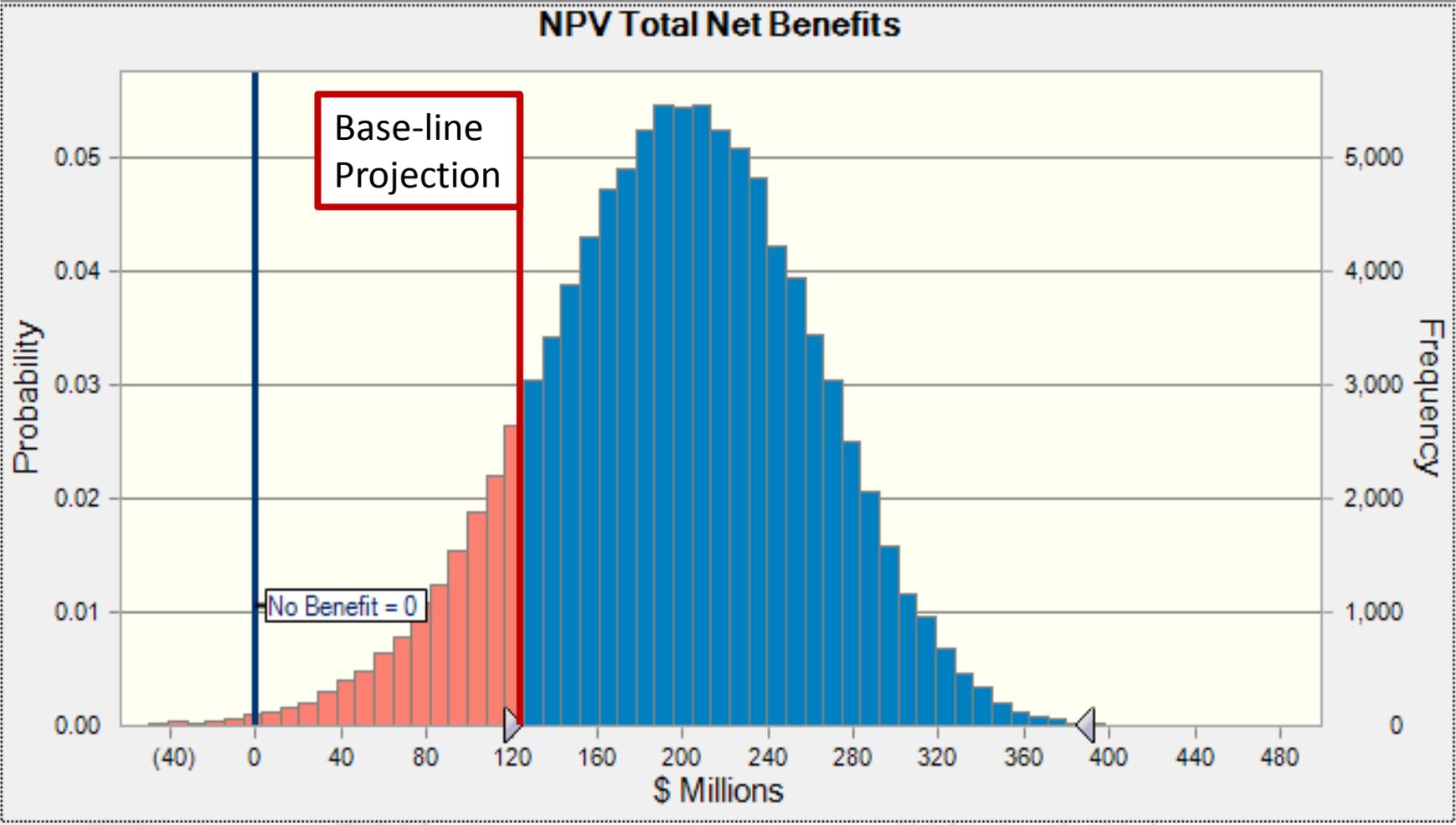
4. The Base-line projections of benefits to GRU of the Ownership Option are conservative

Benefits are more likely to be higher than lower than the Base-line projections for a given set of assumptions about

- Purchase price and
- Grant retention

Risk Analysis – No 1603 Grant

Distribution of Projected Net Benefits to GRU



Assumes Reference Purchase Price, No NewCo or 1603 Grant