

September 14, 2017

Gainesville Regional Utilities  
Proposed GREC Buyout Refinancing  
Thoughts on Financing Scenarios

To Whom It May Concern:

Based on my review of the proposed financing scenarios that GRU has provided, I believe that Scenario #2 which includes 65% fixed rate, 15% variable rate and 20% synthetic fixed rate debt to be the most prudent alternative to pursue. After reviewing a number of documents including an overview of the synthetic fixed rate transaction structure from PFM Swap Advisors LLC, the rating agency presentation from August 2017 and other materials provided to the Utilities Advisory Board in the past several weeks as well as meeting with GRU senior management and their advisors, I feel that Scenario #2 provides the best combination of low cost financing, diversity of funding sources, and flexibility in various interest rate environments relative to the comparative risk profile of this this scenario to the Base Case.

Specifically, Scenario #2 results in ~\$2.1 million of incremental average annual cost savings compared to the Base Case. While increasing the total amount of synthetic fixed rate debt in GRU's debt portfolio, this scenario actually reduces the overall percentage of synthetic fixed rate debt on the overall mix. In my experience, utility companies that prudently manage their debt portfolios will actively seek to diversify their sources of funding and include a mix of fixed and floating rate debt in all rate environments and GRU's approach to targeting an overall mix of ~18% floating rate debt falls squarely in the middle of interest rate risk management approaches. While adding in a synthetic fixed rate piece to the funding equation increases the complexity of the transaction, GRU's staff has experience in expertly managing this increased complexity and has a very good grasp of the risks that come with handling them.

The derivative that is being employed in Scenario #2 may seem complicated or even exotic to individuals that are not actively engaged in the capital markets; however, the specific structure of this transaction is actually quite straightforward and common in the marketplace. GRU management has wisely chosen to include an option to cancel the swap at any time after 10 years which coincides with their ability to call the underlying bonds if the rate environment makes economic sense to do so. This optionality does come at a cost to GRU but the value of having this optionality significantly outweighs the cost.

Some may wonder why a synthetic fixed rate is lower than that of a straight fixed rate offering. The synthetic fixed rate offering takes advantage of the best of two separate markets. First, by tapping additional funds in the variable rate market, GRU is able to reduce its borrowing costs by financing long-term needs at lower, short-term rates (historically this is usually the case that short-term rates are lower than long-term rates). Second, GRU is able to mitigate the volatility of being exposed to short-term rates by tapping into the highly liquid interest rate derivatives market and swapping short-term rates (in this case one-month LIBOR) for the certainty of a fixed rate over the life of the bonds. Financial institutions trade in these types of derivative securities in massive volumes and are comfortable managing this risk for a small profit over huge volumes. This market creates a win-win scenario for both the financial institutions who provide the liquidity and the purchasers (like GRU) who are seeking to arbitrage the value gap between the standard fixed rate market and the synthetic fixed rate market.

I hope that the City and the Utility Advisory Board will strongly consider approving Scenario #2 as the best financing alternative for GRU. Thank you to the management of GRU for their efforts in finding the best options for the City, GRU and, most importantly, the ratepayers.

Respectfully,

A handwritten signature in black ink, appearing to read "R. Scott Thomas". The signature is fluid and cursive, with the first name "R. Scott" and the last name "Thomas" clearly distinguishable.

R. Scott Thomas  
CFO, Infinite Energy

R. Scott Thomas is the Chief Financial Officer of Infinite Energy, a leading independent wholesale and retail marketer of electricity and natural gas. Scott joined Infinite Energy in 2009 and has helped the company expand into new markets and continue growing its core business. Prior to joining Infinite, Scott covered the energy and power sectors as an investment banker for Bank of America Merrill Lynch and UBS Investment Bank. In his banking career, he worked with dozens of investor-owned utilities and power cooperatives to help them raise debt and equity capital, manage their capital funding needs and evaluate and execute on M&A transactions.

Scott is a US Navy veteran, having served in the submarine force and was recognized in 2015 as a Veteran of Influence by the Orlando Business Journal. Scott is a member of the Board of Directors of the United Way of North Central Florida, Chairman of the Finance Committee and a member of the Executive Committee. He is also a member of the Finance Committee of Trinity United Methodist Church. He holds an MBA from Kenan-Flagler Business School at The University of North Carolina and a BS in Mathematics from the United States Naval Academy. Scott and his wife, Dorothy, reside in Gainesville with their two children.