

GRU100

100 YEARS of SERVICE | 1912-2012

GREC Proposal Discussion October 2, 2013

Item #130310



**August
23**



**Sept.
5**



**Sept.
19**



**Sept.
23**



**Oct.
2**



**Oct.
17**



**Oct.
22**



GREC
Advised GRU
it wants to sell
GREC

Right of First
Offer 60 Days
Begins

GREC offers
to reimburse
legal fees
(\$1.5 million)
if GRU
waives some
rights

City
Commission
meeting

Advised City
Commission
of GREC
intention
and offer

Framed
Decisions

City Commission
meeting

Described the
sources of savings

Presented high level
numbers

Discussed
assumptions/ risks

Decision

Let GREC's offer to
reimburse legal fees
expire

Determine areas in
which City
Commission wishes
more, or more in
depth, information

**GREC
offer
expired**

City Commission
meeting

Review/update
high level
numbers

Review major
assumption
discussed on
9-19-13

Address critical
issues

- Financial
- Risk

Additional Q&A

1603 Grant risk
Trade off

City
Commission
meeting

Decision:
Exercise Right
of First Offer
final decision

**GRU's right
of first offer
rights expire**

Oct.
2

CITY COMMISSION MEETING

- Review High Level Numbers from 9-19-13 meeting
- Review Major Assumptions from 9-19-13 meeting
- Address critical issues
 - FINANCIAL
 - Possible rate scenario
 - GRU financial ratios & bond rating
 - 1603 Grant structure & risk
 - Purchase price verses NPV without grant
 - NPV dependency on discounted rate



Oct.
2

CITY COMMISSION MEETING (cont.)

- RISKS
 - Risk profile Matrix
 - Inflation of O&M costs
 - Environmental regulation
 - Environmental compliance
 - Fuel management
 - Future capital requirements
 - Other
- ADDITIONAL Q & A
- 1603 Grant risk trade off

Cost/Value to GRU

9-19-13

Purchase Price	\$520 M	\$620 M	\$720 M	\$800 M
Less Grant	(\$120 M)	(\$120 M)	(\$120 M)	(\$120 M)
Net Price (GRU Debt)	\$400 M	\$500 M	\$600 M	\$680 M
Net Present Value of Savings	\$414 M	\$309 M	\$203 M	\$119 M
% 30 Year Savings to PPA	21%	15%	10%	5%
% 30 Year Savings to PPA (less Fuel, Variable O&M, Taxes)	37%	28%	18%	10%

- Cost of taxable borrowing = 5.3% (slightly above A rated taxable indices)
- Cost of tax-exempt borrowing: 4.8% (slightly above A rated tax-exempt indices)
- NPV discount rate based on GRU's estimated weighted cost of capital = 4.5%

Major Assumptions

- ☑ • GRU's cost of borrowing = 5.1 percent (reflects interest rate of "A" bond rating)
- ☑ • GRU's average weighted cost of capital = 4.5 percent
 - Facility will maintain $\geq 90\%$ availability factor
 - Assuming and managing the plant's O&M generates savings with minimal marginal risk
 - The difference in fuel risk between being "buyer" under the PPA & being "owner" is minimal
 - Other

Critical Financial Issues

- Possible rate scenario
- GRU financial ratios and bond rating
- 1603 Grant structure and risks
- Purchase price versus NPV without the grant
- NPV dependency on discount rate

Hypothetical Rate Scenario

- Assumptions
 - \$620 million Purchase Price
 - \$120 million Grant
 - \$500 million GRU Debt (Levelized over 30 years)
 - Fuel Adjustment begins at lower rate and escalates more slowly than in FY 2014 Budget
 - No additional Off-system Sales
 - Other variables, including use of UPIF, consistent with FY 2014 Budget
 - Only assumes changes due to potential purchase of GREC. Does not incorporate any potential changes for upcoming 2015 Budget.

Hypothetical Rate Scenario

1,000 kWh Residential Electric Bill*

Scenario	2015	2020
Budget 2014	\$151.00	\$164.25
Purchase \$620M	\$142.50	\$152.50

1,500 kWh GSN Electric Bill*

Scenario	2015	2020
Budget 2014	\$264.00	\$282.00
Purchase \$620M	\$259.50	\$279.00

75 kW 30,000 kWh GSD Electric Bill*

Scenario	2015	2020
Budget 2014	\$4,738.75	\$5,102.50
Purchase \$620M	\$4,423.75	\$4,783.75

*Does not include taxes and surcharge.

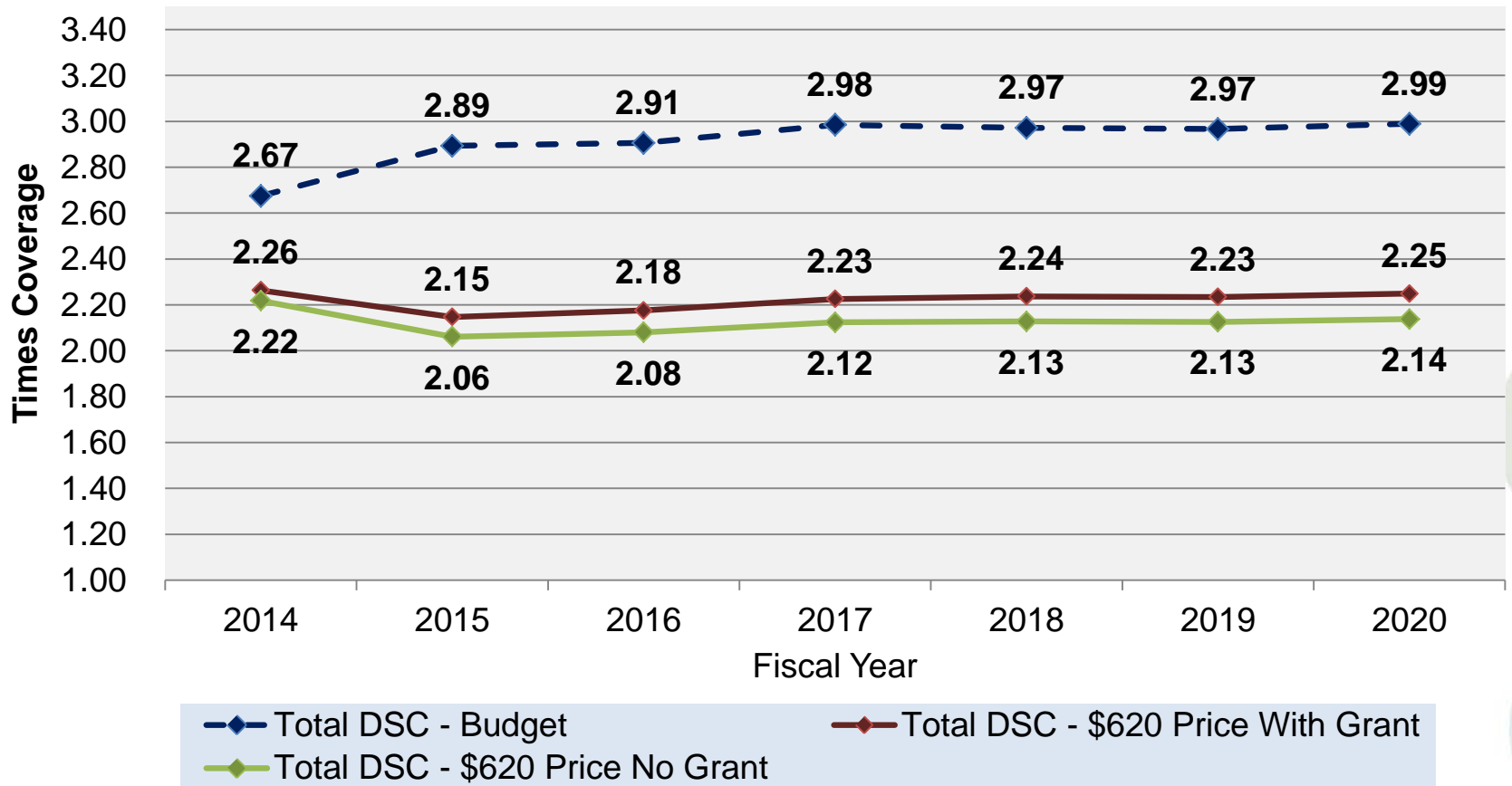
A Possible Rate Scenario

Hypothetical Bills 2015-2020

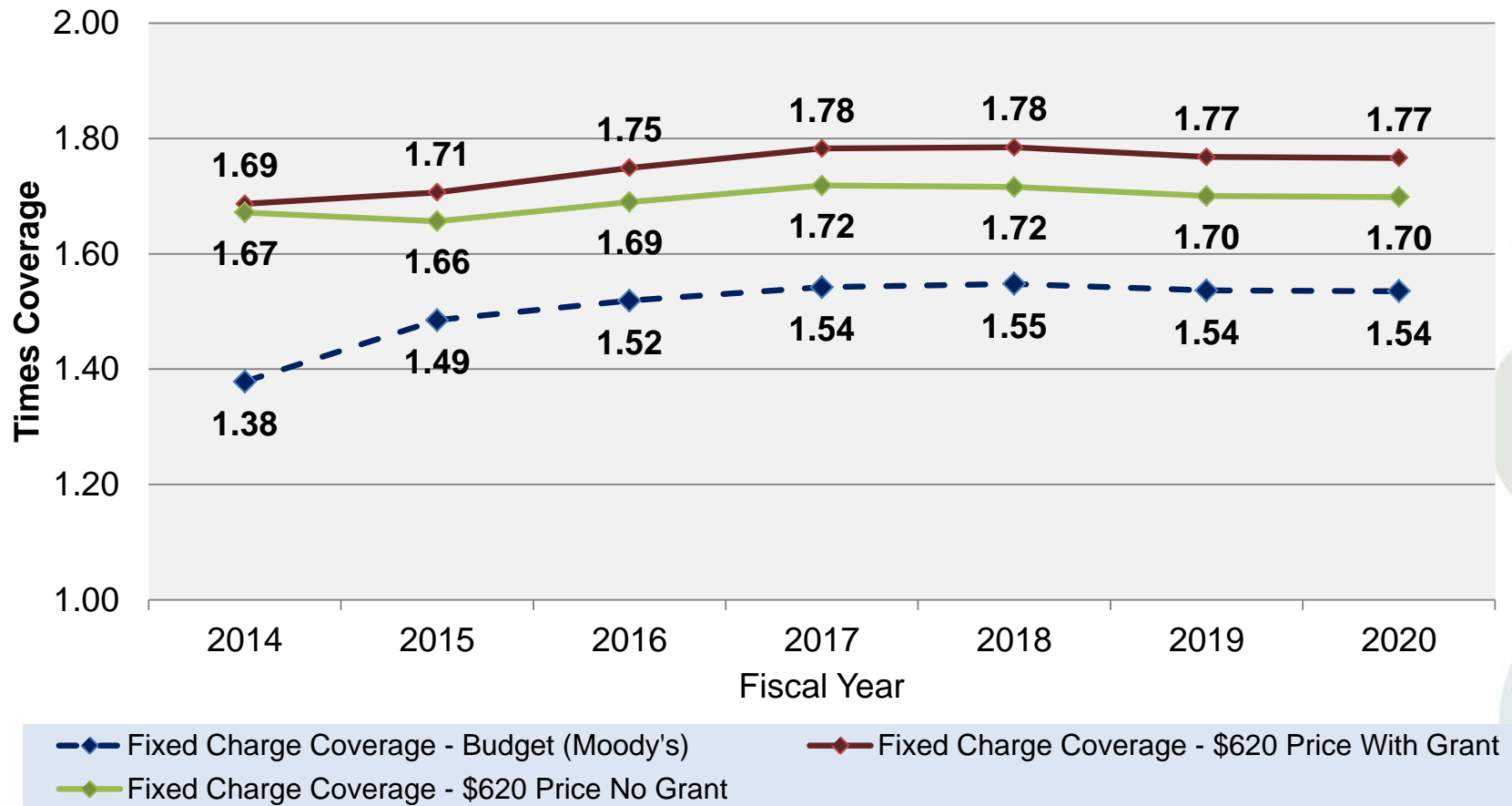
1,000 kWh Residential Electric Bill*

Scenario	2015	2016	2017	2018	2019	2020
Budget 2014	\$151.00	\$155.50	\$159.30	\$161.00	\$162.25	\$164.25
Purchase \$620M	\$142.50	\$149.50	\$154.50	\$156.50	\$156.50	\$152.50
Potential Monthly Savings*	\$ 8.50	\$ 6.00	\$ 4.80	\$ 4.50	\$ 5.75	\$ 11.75
Potential Annual Savings*	\$102.00	\$ 72.00	\$ 57.60	\$ 54.00	\$ 69.00	\$141.00

Total Debt Service Coverage



Fixed Coverage Charge



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1603 Grant Issues



1603 Grant

- Discussion
 - What is the 1603 grant?
 - What is the value of the grant to the GREC facility?
 - What is the outline of the proposed tax structure to retain the grant?
 - What are the risks if the 1603 grant is recaptured?

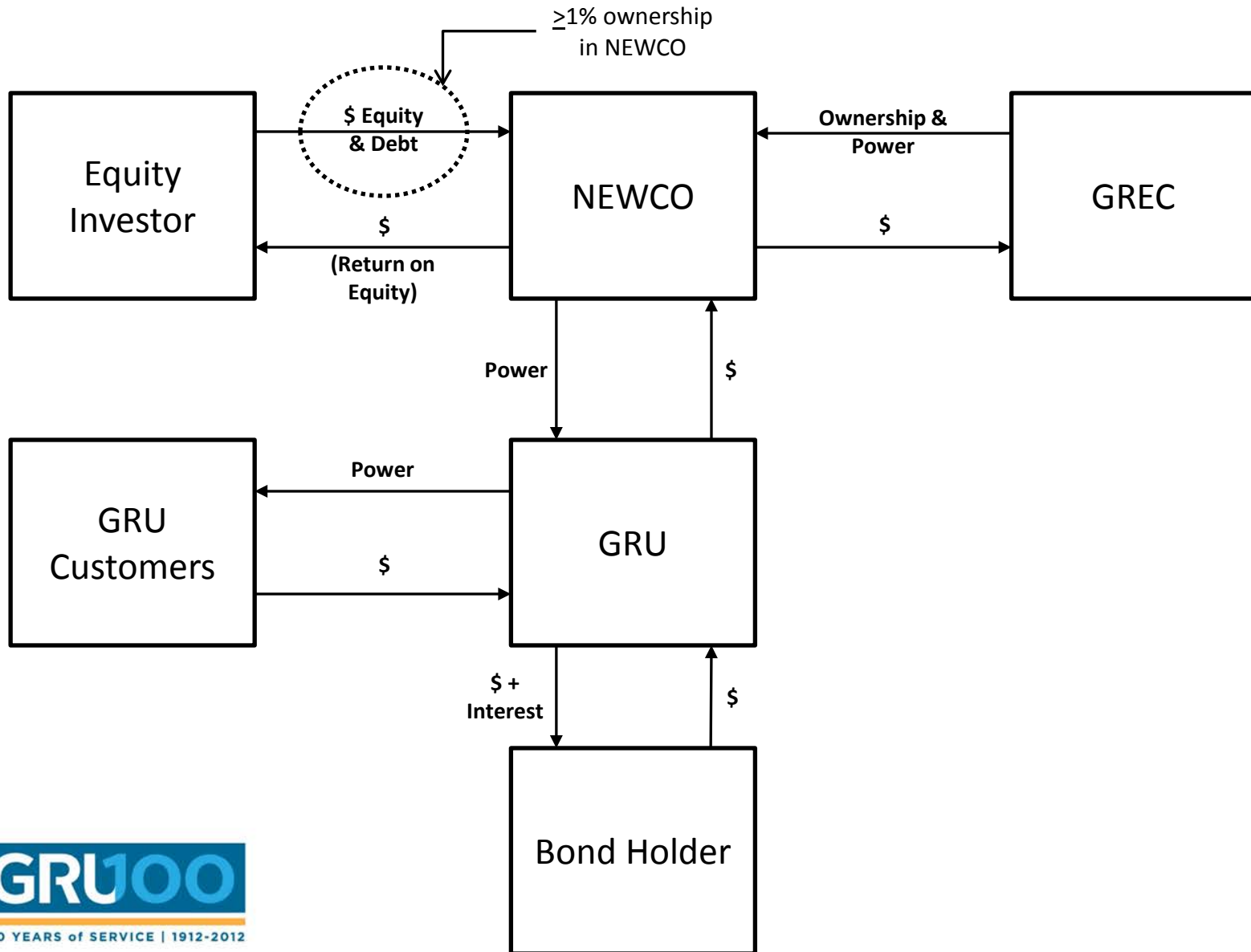
What is the 1603 Grant

- Reimburses eligible applicants for a portion of costs of installing energy property
- Payment is made after the energy property is placed in service
- Payment is not made prior to or during construction
- Worth approx \$120 million to GREC facility

Proposed tax structure

- GRU & private investor form a New corporation (“NewCo”)
- NewCo would be taxed separately from its owner(s)
- NewCo would retain ownership for at least 5 years to prevent 1603 grant recapture
- NewCo would own the GREC facility and pay taxes

Simplified Transaction Structure



Proposed Structure

- NewCo must have at least 1 percent ownership by nonpolitical subdivision investor
- Buyout of NewCo after 5 years would not result in recapture

NewCo Capitalization

- NewCo would be composed of at least 20% equity
- NewCo could be financed by
 - taxable debt; or
 - debt structured through a prepayment with tax-exempt bonds

Potential Risk Scenarios

- IRS audits NewCo, NewCo prevails
 - NewCo keeps 1603 grant
 - Could be a lengthy and costly audit process
- IRS audits NewCo, NewCo doesn't prevail
 - NewCo must pay back the 1603 grant
 - Could be a lengthy and costly audit process

Purchase Price vs. NPV Without the Grant

Purchase Price	\$520 M	\$620 M	\$720 M	\$800 M
Less Grant	(\$0 M)	(\$0 M)	(\$0 M)	(\$0 M)
Net Price (GRU Debt)	\$520 M	\$620 M	\$720 M	\$800 M
Net Present Value of Savings	\$335 M	\$231 M	\$126 M	\$42 M
30 Year Savings to PPA	16%	11%	5%	1%
30 Year Savings to PPA (less Fuel, Variable O&M, Taxes)	26%	17%	8%	1%

- 100% tax-exempt borrowing
- Cost of tax-exempt borrowing: 4.8% (slightly above A rated tax-exempt indices)
- NPV discount rate based on GRU's estimated weighted cost of capital = 4.5%

NPV Dependency on Discount Rate

NVP tested with varied discount rates

- \$720 million Purchase Price (with grant)
- Range of Discount Rates: 4% - 7%
- Resulting NPV Range of \$214 million – 160 million

Risk Profile Matrix

Overhead presentation

Q & A

1603 Grant Risk Trade Off

If grant **is** included in price, what's the **risk** if IRS recaptures grant and GRU must make the U.S. Treasury whole?

If grant **is not** included in price, what's the **risk** GRU offer will not be competitive?