



GRU/GREC MOU

March 2, 2017

Background

- GRU pays \$194,709 a day for “available energy”
- Non-disclosure Agreement/Mediation
- GRU sends GREC an MOU on Friday, Feb. 17 to purchase plant and terminate PPA
- The MOU has not been executed

MOU Details

- \$750 million purchase price
- Arbitration continues until closing
- Financed through 30-year utility bonds
- Caps interest rate at 3.75%
- 10-month exclusivity after signing
- Independent facility inspection
- NDA still covers verbal discussions

Major Factors

- Price
- Interest Rate
- Operating Considerations
- Modification Risk
- Political Risk
- Expertise
- Risk of inaction

Price

- \$750 million purchase price
 - annual payment of \$42 million
 - or \$1.26 billion over 30 years
- Operating costs of \$6 million per year
- Savings of ~\$27 million a year
- No evidence to support voiding current contract based on execution

Interest Rate

- Assumed a 3.5% blended, tax-exempt rate
- Rate above 3.75%, price adjusted
- Current market conditions favorable
- Rating agency risk
- Tax exempt vs. taxable bond risk
- Comprehensive marketing campaign

Operating Considerations

- Un-optimized generating asset mix
- The model assumes GREC in standby
 - ~\$6 million per year
- GRU has not included any benefit of running the plant
- Core competency: Manage and operate power generation plants

Modification Risk

- Experience modifying plants to operate at alternate loads (Deerhaven)
- Confident we can modify to operate below 50 MW
- Could go as low as 25 MW
- Modification cost: ~\$15 million

Political Risk

- Complete analysis - GFT, utilities tax and property taxes
- Thorough understanding by all parties
- Public education on benefits
- Political football
- Potential reform to U.S. tax code

Expertise

- 2013 Bond Buyer Deal of the Year
 - \$300 million transaction
- Multiple multi-million-dollar fuel contract negotiations
- Restructure with \$200 million energy project refinancing
- Built a team of industry experts

Risk of Inaction

- Electric rates remain high
- GRU customers pay \$2.1 billion over 27 years
- Losing opportunity to save ~\$650+ million
- Continued un-optimized asset mix
- Missed future opportunities
- Pressure on bond ratings
- Slows economic development

Additional Key Points

- Arbitration continues
- If plant has fatal flaw: Save ~\$200 million
- Deerhaven Unit 1: Save ~\$200 million
- Ownership doesn't change benefits of usage
 - Marginal cost of wood is cheaper - run
 - Marginal cost of gas is cheaper - standby
- 1603 grant (~ \$ 57 million)

Questions?