Individual Opinion of UAB Chair Darin Cook

Like it or not we are buying a PPA and biomass plant for $750,000,000. Now we must finance it. GRU has given us two scenarios to review. Some may think that a host of others should be presented, but, Mr. Bielarski, Mr. Locke and their staff have identified the best two out of an almost infinite combination of possibilities. I am satisfied that the two presented are the best two and to offer two, 10 or 100 more would obfuscate a good decision.

Before delving into the options, I'd like to talk about motive. All of us voted unanimously to give Mr. Bielarski an excellent review less than a year ago. I still stand by this assessment. If the rest of you stand by it, this means we trust that his filter will be what is in the best interest of GRU and its ratepayers when he makes decisions. If this is the case, we can disagree with Mr. Bielarski because of a differing perspective, not because of motive. This distinction removes the specters of distrust and nefarious motive from consideration.

A point has been made that the concept of economic moral hazard can push good people to make bad decisions. I do not agree that this applies in the case of Mr. Bielarski and Mr. Locke. Generally, this occurs because one party takes little risk with possibility of great reward and pushes all that risk on another party. This came into crystal clarity during the housing crisis in 2008. Bonus systems allowed individuals to in effect bet the company with no exposure to themselves, but with great possibility of reward. I do not see any bonus system in place for GRU other than a shaking of the hand and saying good job for a job well done or at worst parting ways for a job not well done. And if you think the loss of a job at GRU would be the moral hazard, I'd beg to differ. The quality and character of both Mr. Bielarski and Mr. Locke almost guarantees their ability to get equal or better positions elsewhere.

One of the most important assurances offered was that all debt would be paid off for the purchase of the PPA and the biomass plant after 30 years.

One of my hobbies that I am passionate for is chess. Good chess players can dismiss millions, billions and even trillions or more potential future moves through pattern recognition and pruning. Mr. Locke explained in our last meeting that commercial paper at such a scale would be riskier than using bonds because during times of financial crisis one must try and renew commercial paper every week or month whereas a variable bond does not need to be renewed in such quick succession. He also indicated the market is much smaller and less liquid in commercial paper than it is in bonds. Furthermore, Mr. Locked indicated the rates were essentially the same after all costs were accounted for. So with this information, all possibilities that concern commercial paper can be eliminated. In scenario one, Mr. Locke does propose a standard 30 year fixed rate bond for 85% of the purchase. He indicated that the synthetic purchase is much less expensive by an order of $2.1 million dollars a year. He also said that rating agencies want to see a diversity in products, so doing too much of the synthetic bond or not doing it all might put their current rating at risk so in his opinion, keeping the current mix of products close to the same would not sound an alarm to the rating agencies. A good chess player will only look at how much synthetic fixed rate bond to purchase.

All of my concerns regarding settlement risk and call risk have been alleviated because of the $50 million dollar protection before a call on money can be issued. For mark to market exposure to get over $50 million, interest rates would have to go below 0%, which is highly unlikely.

My biggest concern on risk is that if GRU gets a two bump downgrade, GRU would be considered in default. I think this is a small risk. Also, all of the other bonds GRU holds have the same clause. My second biggest concern on risk is that libor, the index rate that the synthetic bond is pegged to, may go way in 2021. Trillions of dollars are pegged to libor. This means that it is highly likely that a solution or replacement index will be developed to ameliorate or completely alleviate this risk.

Therefore based on my own experience and perspective, the experience and perspective of Mr. Locke and Mr. Bielarski, and the experience and perspective of Infinite Energy’s CFO who was in the banking sector, I must recommend option #2 and like Dr. Denslow told Justin Locke, encourage a bit more of the synthetic fixed rate while this arbitrage lasts. It all but guarantees at least an additional $2.1 million a year (which equals 63 million dollars in savings over the life of the bond) in savings versus option #1 with an option to refinance if rates go lower after 10 years. Discounting this savings over fear of a fairly straightforward product in the banking world would be imprudent and financially irresponsible.