From:	Locke, Justin M
To:	Bielarski, Edward J
Subject:	Updates
Date:	Tuesday, January 10, 2017 3:13:36 PM
Attachments:	20170106_1801 $750mm 2017 grec (lds).pdf 20170106_1803 $725mm 2017 grec (lds).pdf att00001.htm att00002.htm

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FYI

Sent from my iPad

Begin forwarded message:

From: Chris Lover <LOVERC@pfm.com>
Date: January 10, 2017 at 2:20:14 PM EST
To: "Locke, Justin M" <LockeJM@gru.com>
Cc: Michael Mace <MACEM@pfm.com>
Subject: Updates

Justin

Based on the discussion last week, PFM has updated some of the numbers run associated with the purchase option. We ran 2 x scenarios ($725 and $750 million). We assume closing on June 1 of this year.
Overall debt service for $750 averages $43.2 million per year (through 10/1/2047). Previously, this was $47.0 million per year (through 10/1/2045).

Some of the changes compared to the prior scenarios from December are summarized below:

<!--[if !supportLists]-->- <!--[endif]-->Variable rate

<!--[if !supportLists]-->o <!--[endif]-->Percentage of overall proceeds increased from 10% to 15%

<!--[if !supportLists]-->o <!--[endif]-->Used 1.5% for the initial rate and then stepped into 2% date after 2018

<!--[if !supportLists]-->o <!--[endif]-->Extended the maturity by 2 years to allow for 30 years useful life upon the closing of the transaction.

<!--[if !supportLists]-->- <!--[endif]-->Fixed rate

<!--[if !supportLists]-->o <!--[endif]-->Updated for current

MMD (6 January 2017)

<!--[if !supportLists]-->o <!--[endif]-->Percentage of overall proceeds drops from 90% to 85%

<!--[if !supportLists]-->o <!--[endif]-->Tightened the “safety buffer” of MMD. Now +25 basis points for MMD to account for potential future volatility. In previous iterations, this buffer was +50 basis points

<!--[if !supportLists]-->o <!--[endif]-->Underwriter’s Discount. Takedowns, given the large size of the transaction, is now $3 per bond. Previously, this was $5 per bond.

<!--[if !supportLists]-->o <!--[endif]-->Cost of issuance. This remains the same ($5) compared to prior numbers runs. Legal costs the big question given the potential complexity of the transaction.

<!--[if !supportLists]-->o <!--[endif]-->Debt Service Reserve Fund. Remains ½ max annual debt service.

Other items to consider:

<!--[if !supportLists]-->- <!--[endif]-->Taxable versus tax-exempt. This assumes Orrick is comfortable with tax-exempt debt

<!--[if !supportLists]-->- <!--[endif]-->Refundings. With this structure, we assume 5% coupon bonds. Likely that GRU would be able to refund this debt in 10 years and then 20 years. This savings has not been incorporated but could likely improve the NPV savings given the size of the transaction.

<!--[if !supportLists]-->- <!--[endif]-->Debt service reserve fund. This currently has ½ Max Annual DS. We would like to check the pulse of the Rating Agencies on this to see if they blink about not having a DSRF and then can show them this. On the NPV analysis, the DSRF would flow back to GRU at year 30, would be about $20 million at ½ MADs.

<!--[if !supportLists]-->- <!--[endif]-->Initial Rating Agency Engagement. Once the news starts to become public, then would recommend an initial engagement telling them it is in the works, provide an initial presentation (phone) with savings and assumptions with follow-up for the rating as needed for the bond transaction.

<!--[if !supportLists]-->- <!--[endif]-->1603 Grant. Looks like the clawback steps down each year based on COD. A review of the IRS website indicates that if completed prior to December, the clawback would be ~$47 million. After December, the clawback would likely be half that amount.

<!--[if !supportLists]-->- <!--[endif]-->Structure of the bond transaction. This assumes level debt service for the transaction. Given fixed and variable mix of debt, we would likely amortize the variable rate debt out long on the yield curve rather than amortizing the fixed rate debt out in

years 28-30 (for example).

<!--[if !supportLists]-->- <!--[endif]-->Cost of Issuance. City commission should be prepared for a large number – very likely +2x what was seen on the arbitration/litigation issue a few years ago and their reception to that was not very positive

<!--[if !supportLists]-->- <!--[endif]--> Blocker Corp and preservation of the grant versus GRU purchase. Who issues the debt for purchase? Previously, assumptions were that the blocker corporation issued the debt and this was to be taxable. The primary Scenario from the initial engagement was that the blocker would issue a relatively small amount of taxable debt and GRU would pre-pay for a significant portion of power from the Blocker Corp such that it comprised 80% or so of the purchase price. So, a significant assumption from years past.

<!--[if !supportLists]-->- <!--[endif]-->Documents. There are 2 transactions that come to mind in terms of documents that required the establishment of a blocker corporation. This adds complexity and time (while preserving the grant). In these instances, the transactions took about 6 months to get across the finishline since there were +20 documents to negotiate. Conceptually, the blocker corporation needs to be established and then all requisite authority to operate the facility transfer to the blocker corp. The documents also have to contemplate a flip back to GRU in a few years, so they need to have that flexibility. Some of the more significant documents

<!--[if !supportLists]-->o <!--[endif]-->Letter of Intent. Becomes the baseline that everything referred back to as negotiations took some changes and turns. Good faith deposits and break-up fees became an issue

<!--[if !supportLists]-->o <!--[endif]-->Documents and partner for establishing the blocker corporation. Previously, GRU had worked to identify a 3d party to be an owner of the blocker corporation

<!--[if !supportLists]-->o <!--[endif]-->Asset Sale agreement

<!--[if !supportLists]-->o <!--[endif]-->Power purchase agreement

<!--[if !supportLists]-->o <!--[endif]-->Interconnection agreement and substation use

<!--[if !supportLists]-->o <!--[endif]-->O&M agreement

<!--[if !supportLists]-->o <!--[endif]-->Survey and ground lease

<!--[if !supportLists]-->o <!--[endif]-->Security agreement

<!--[if !supportLists]-->o <!--[endif]-->Facility administration agreement

<!--[if !supportLists]-->- <!--[endif]-->Timing of a bond transaction. While negotiating the transaction and the documents, GRU would likely also have to get a bond transaction off the ground. We would anticipate that this could happen over the course of the last 2.5 months. So, a significant effort for the staff that would likely have to be synchronized with GRU's "day jobs" of budget formulation in the summer and the closing of the books in October. Typically, 4 weeks for POS, 3 weeks for rating agencies, 1 week for marketing and then execution. So, probably, for a streamlined process, 2 months. More realistically, 3 months to incorporate the City Commission approval process. The last OS GRU did was in 2014.

<!--[if !supportLists]-->- <!--[endif]-->Banks. Previously, Goldman Sachs, Bank of America and JP provided analysis on the facility.

<!--[if !supportLists]-->- <!--[endif]-->Rating Agencies. This will force the rating agencies to really take a close look at the current PPA and understand the components of the fixed costs of the contract. While they have the contract and have been presented this information, given the loss of Alan Spen and Kevin Rose, we are not 100% comfortable that the analysts really know the details of the contract. Conceptually, GRU can present this as a "refunding" transaction but the details and structure needs to be discussed and presented so the security structure and impact to new and existing bondholders is clearly articulated. So more difficult lift in presenting the information compared to a bond transaction. We will work up some scenarios for the call later this week.