From: Ray Washington
To: Citycomm
Cc: Dl_utility Advisory Board; Bielarski, Edward J; Locke, Justin M; Brown, Thomas R; Holt, Carlos L
Subject: GREC -- The Bielarski approach
Date: Tuesday, February 28, 2017 11:06:27 PM

Commissioners,

This evening I was told that I may have come across as censorious in my last evening email reply to Mr. Bielarski's suggestion that my analysis of his proposed Memorandum of Understanding (MOU) was improper. I do not think my MOU analysis was in any respect improper. I assumed Mr. Bielarski just misunderstood my point, or/and is under significant pressure to deliver a GREC purchase deal. I appreciate his efforts under difficult circumstances.

In any event, it was not my intention to be unduly critical in my discussion of his position as I understood it. It had not even been my intention to discuss the details of his MOU proposal. I continue to believe that negotiations of such an MOU should be delayed until after this Commission reviews and makes a preliminary determination of whether or not to seek forensic evidence supporting a legal claim of GREC fraud in the inducement related to the GREC Power Purchase Agreement (PPA), and fraud or impropriety in the implementation of it.

However, I understand that the majority of the members of this Commission have demonstrated, if not clearly expressed, a lack of willingness to perform this sort of due diligence. The GREC buyout train has left the station. Members of the community who have something to add to the public discourse have a responsibility to address the issues that now are being discussed. I include myself in that number.

In my view, a public debate – even if premature – is preferable to the GREC information-lockdown approach taken by the 2009 Gainesville City Commission (which approved GREC PPA) and tolerated by the 2011 City Commission (under whose watch significant and costly amendments were agreed to between

then-GRU management and GREC's speculator representatives). Mr. Bielarski seems to have tried to guide this Commission to a different approach, despite pressures from some members of this Commission and the opportunistic demands of the GREC energy speculators.

In keeping with his transparency efforts, Mr. Bielarski last evening stated that he will have an agenda item on the Thursday Commission meeting in which he intends to talk about elements of the proposed MOU he sent to GREC CEO James Gordon last week, and which he has shared with the Commission and the UAB. Mr. Bielarski, to his credit, is willing to elaborate on and defend the rationales he already has begun laying out, in an editorial in *The Gainesville Sun* the weekend before last, in a "Blueprint to a Buyout" shared with the Commission and Utility Advisory Board last weekend, and in his response to me last evening.

Preliminary to Thursday's City Commission meeting, which I do not plan to attend, as part of the public discussion I recite here, respectfully, Mr. Bielarski's points, as I understand them, subject to his correction, if any, and I state or restate my counterpoints.

Mr. Bielarski's Point:

The economics of the MOU are based on future expenditures over the remaining life of the PPA dropping from *$2.1 billion.*

Counterpoint:

The maximum even theoretically possible future fixed payment expenditures cannot be more than *$1,847,788,410*, granting for the purposes of discussion Mr. Bielarski's unlikely, or impossible, implicitly posited scenario that the GREC plant would be able to produce an average of 102.5 MW every day for 26 years (which assumes, among other things, that the GREC plant would *never* be taken off line for maintenance and at that the plant's heat rate

would not increase with age). The *$1,847,788,410* number assumes a GREC plant purchase closing in 10 ½ months, ahead of the closing schedule Mr. Bielarski has suggested in his "Blueprint of a Buyout. (If closing occurs later, the maximum possible future fixed payment expenditures would be less). A more probable future fixed payment expenditure number, even assuming an expedited closing, would be *$1,626,053,801* (which is consistent with what GREC in the October 25, 2016 mediation Washington D.C. mediation session with GRU suggested would be a reasonable guaranteed availability rate – an availability rate that exceeds industry average).

Mr. Bielarski's Point:

There *will be* $600 to $700 million savings based on the financing costs of a purchase and operation of a facility in standby versus the fixed cost GRU otherwise *would* have to pay GREC under the PPA.

Counterpoint:

It is not possible that there *can be*, much less *will be*, $600 million to $700 million in savings based on the financing costs of a purchase and operation of a facility in stand by versus the fixed cost GRU otherwise *could,* much less *would*, have to pay GREC under the PPA.

Debt service on a 30-year fixed rate 3.75% tax free bond is $1,261,961,600 ($750,000,000 total principal payments and $511,961,600 total annual interest payments). Even if up-front transaction-related fees of 1% to 1.5% ($7.5 million to $11.25 million) are not counted and the time value of money is not considered – even municipal tax-free long bond interest rates don't rise by the 3/4 of 1 percent by the end of the year as some economists are now predicting (which would increase debt service by more than $120 million) – $1,261,961,600 subtracted from a *$1,847,788,410* unlikely or impossible possible fixed

payment expenditures suggests an over-inflated a *pre-standby-cost* differential of $585,826,810.

Obviously, it is not possible to have standby costs of negative $14,173,190 (Mr. Bielarski's postulated *minimum* savings of $600,000,000 minus an overinflated $585,826,810).

To the contrary, GRU's financial advisor Public Finance Management (PFM) in analyzing a possible GREC purchase in consultation with engineering and design experts, projected that if GRU were to acquire the GREC plant, GRU from 2018 and 2043 would incur additional annual insurance costs totaling $39,750,188.

PFM further concluded that from 2018 and 2043 GRU would incur annual operation and maintenance costs and capital investment costs totaling $484,135,539, 9.8% less than the $536,944,200 Mr. Bielarski appears to suppose GRU *would* have to pay GREC in Fixed Operation and Maintenance (FOM) charges based on the PPA terms over a 26-year time frame. Mr. Bielarski's likewise appears to suppose GRU *would* have to pay GREC $1,310,844,201 in Non Fuel Energy (NFE) charges over a 26-year time frame.

For the purposes of Mr. Bielarski's argument in favor of the proposed GREC contract buyout and plant purchase, PFM's projection of GRU $523,885,727 ($39,750,188 plus $484,135,539) total expenses for insurance, operation and maintenance and capital costs over that 26 years time frame is relevant for GREC buydown and purchase decision analysis, but not dispositive. Presumably Mr. Bielarski's team has projected a lower total expense number, calculated based on GRU's projected GREC plant standby costs, rather than GREC plant active electricity production costs, which were the basis of PFM's projections. Those cost projections in some respects may be about the same as PFM's projections (e.g. insurance costs), and in some respects may be lower than PFM's projections (e.g. operation and maintenance and capital costs). PFM's projections

of GRU's ownership costs, unlike the projections of Mr. Bielarski's team, were based on an assumption that GRU would usually operate the plant, though not at the level Mr. Bielarski at which the plant would be expected to operate.

In any event, whatever overstatements or misstatements may have inadvertently occurred in the expedited roll-out of the GREC purchase proposal, if any, Mr. Bielarski, to his credit, has agreed to begin a round of public meetings to better explain the proposal. He undoubtedly will share with the Commission and the UAB details of his team's ownership cost projections, including projected additional costs for end of plant life decommissioning and environmental cleanup, costs for which GRU would not be responsible if it did not buy the plant.

Mr. Bielarski also undoubtedly will discuss costs that the proposed GREC purchase, if effectuated, would indirectly reallocate among GRU customer rate classes, and will discuss the shifting of tax-and-surcharge related costs to GRU customers outside the city limits and non-GRU customers inside and outside the city limits. (Reallocation of costs among rate classes and shifting costs to GRU customers outside the city limits would result from GREC PPA costs disappearing from the fuel adjustment charge while GREC ownership charges are added to the base rate – a change that, among other things, would burden all GRU customers by taxing GREC-plant related costs that previously were untaxed; would asynchronously benefit GRU customers able to take advantage of tiered base rates; and would burden GRU customers outside the limits who would pay increased surcharges. The elimination of GREC-related property taxes now paid by GRU customers would reduce GRU customer electric costs by about $7.4 million per year while at the same time eventually increasing the property tax burden for GRU customers and non-GRU customers who own taxable property.)

Fortunately, when, in what form, and whether, the GREC purchase proposal proceeds Mr. Bielarski seems committed to

engaging a community dialog about the plusses and minuses of this proposed GREC deal. For our community, and our utility, this is a sea change.