

Attachment to the Testimony of David Dornbirer





Major Considerations in Financing PPP Projects

Regulatory Issues

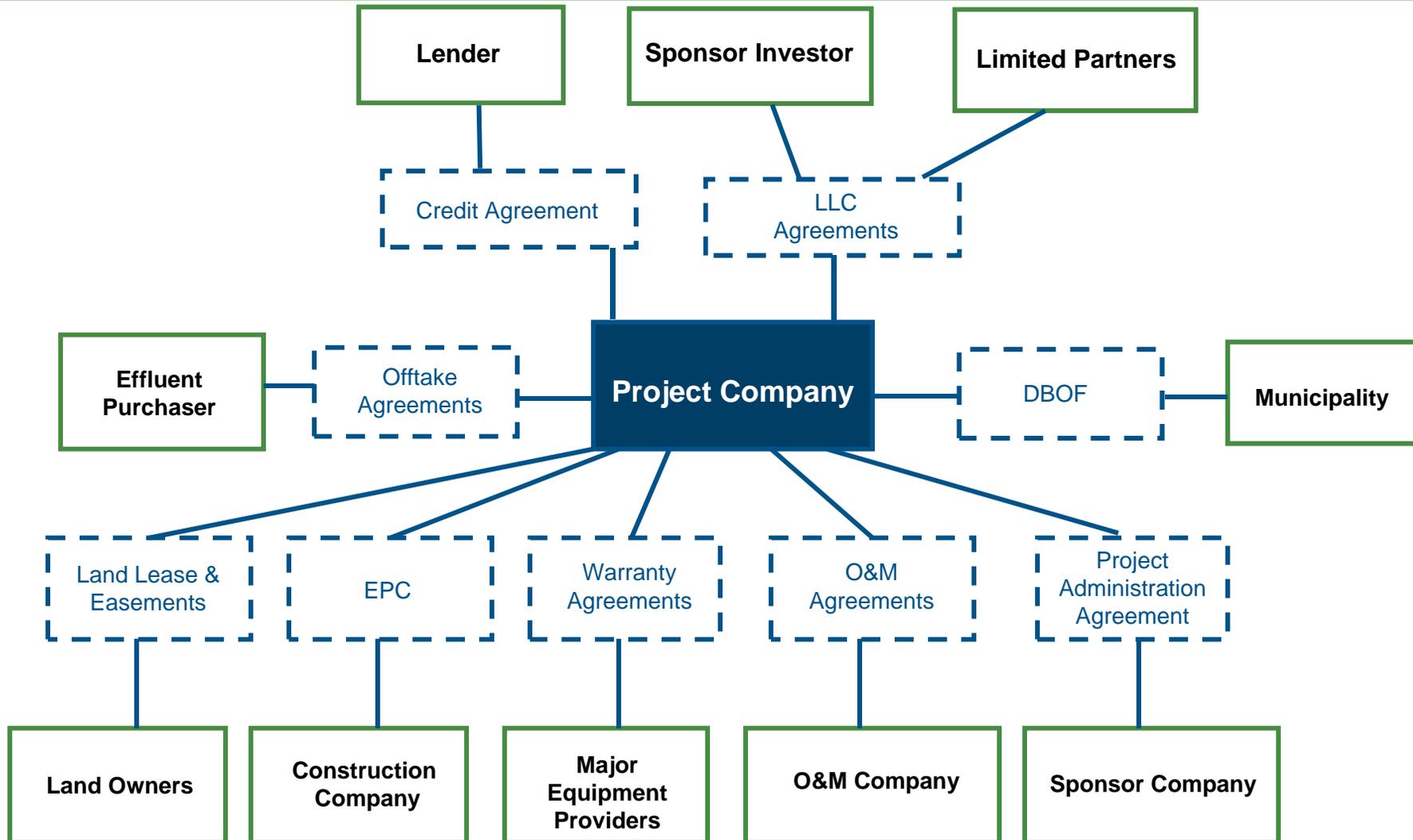
DBOF Pricing and
Terms

Construction

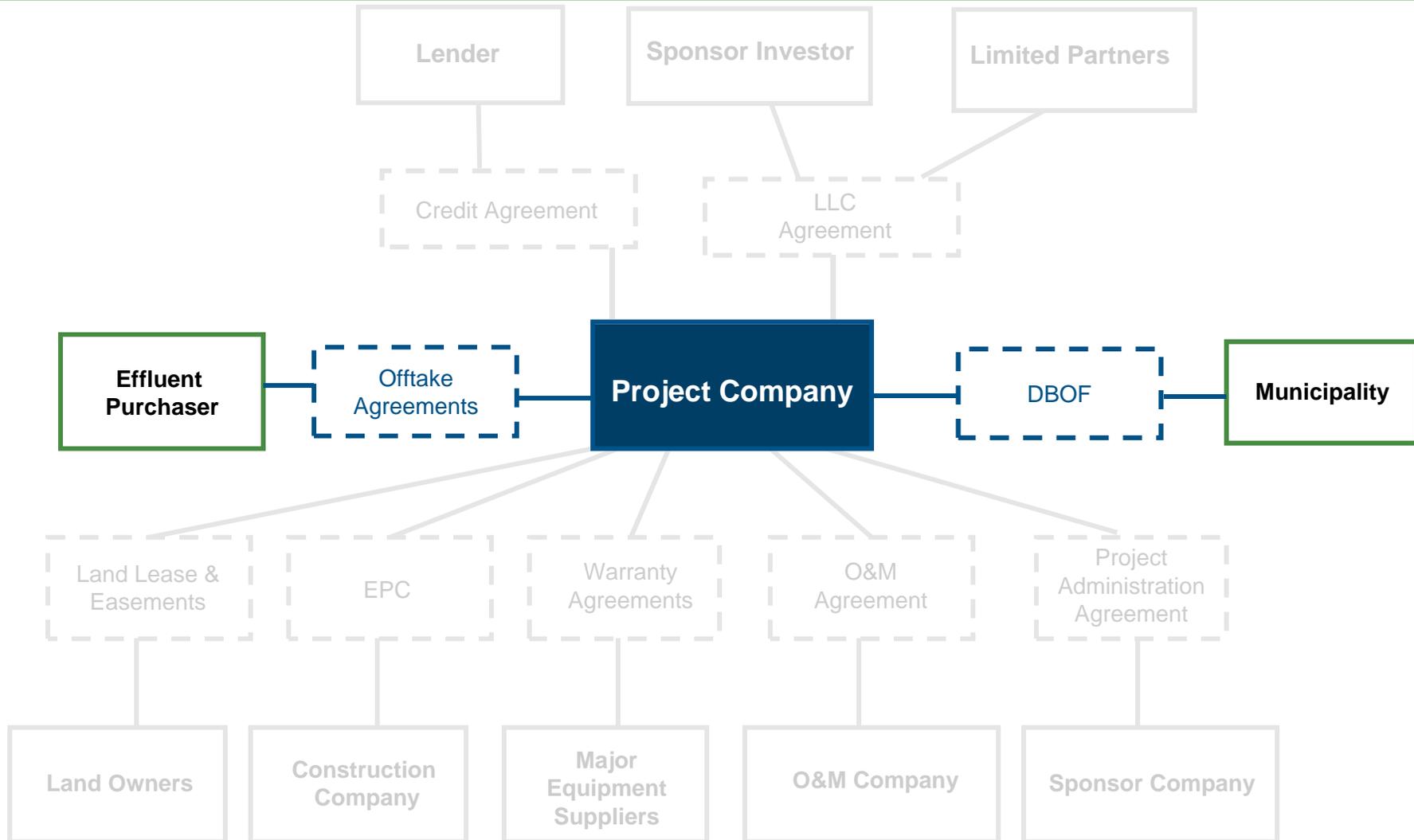
Operational Risk

Financial Analysis
and Structure

Key Stake Holders and Contract Structure



DBOF Agreement





➤ Risks

- Credit risk of municipality
- Rate dispute process
- Transfer of ownership
- Maturity of debt versus term of DBOF

➤ Mitigants

- Enter into DBOF with creditworthy entity
- Negotiate fixed price DBOF with CPI increases
- Effluent sales in revenue will be offset by higher DSC
- Full amortization of debt prior to end of DBOF
- Cost pass-through for power, sludge disposal



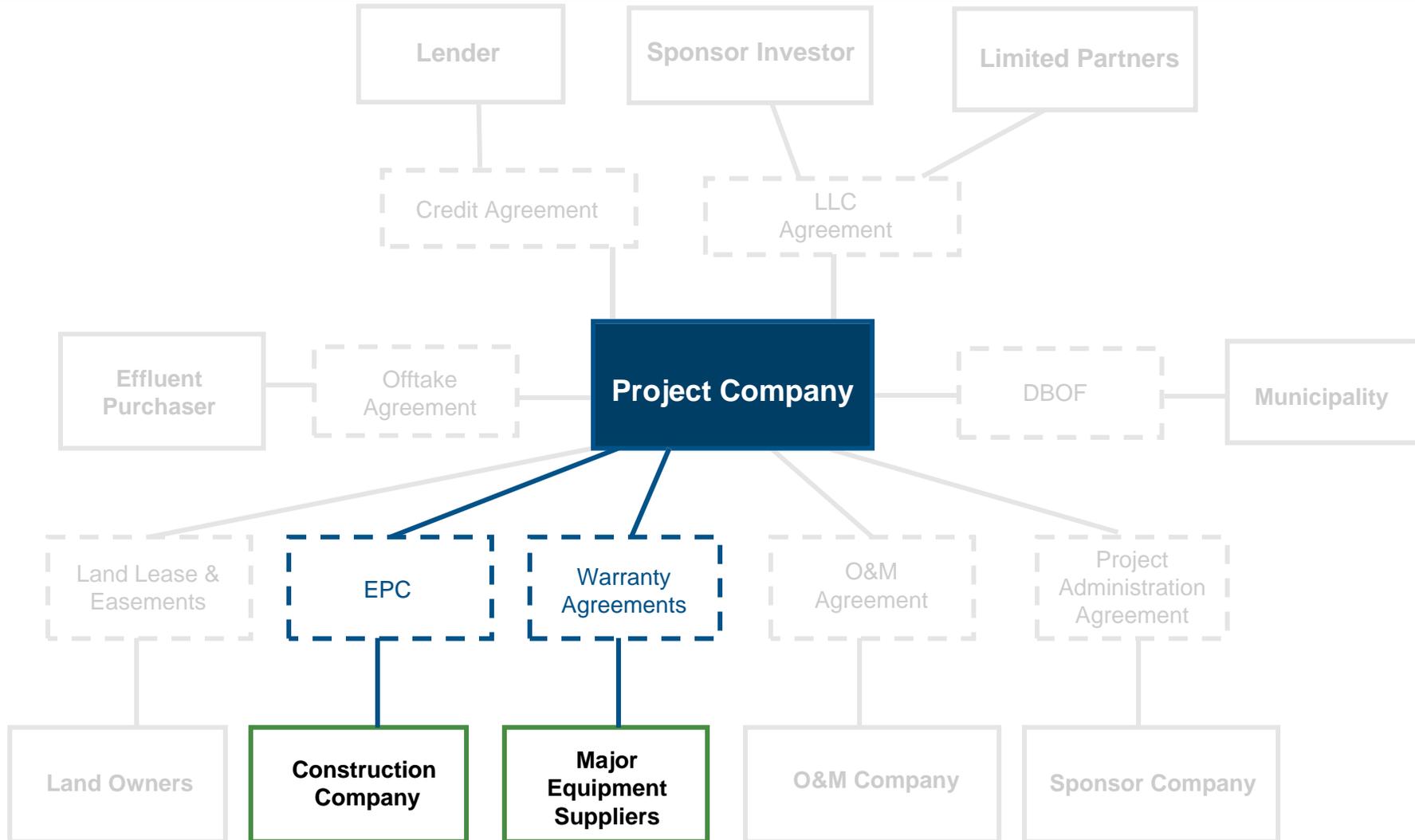
➤ Risks

- Rate setting
 - PUC involvement
 - Rate protest process
- Environmental permitting
- Water rights and availability

➤ Mitigants

- Rates clearly set out in DBOF agreement
- Risk allocation between municipality and project company
- Contingent equity / Sponsor guarantee

EPC Contract (DBO Agreement)





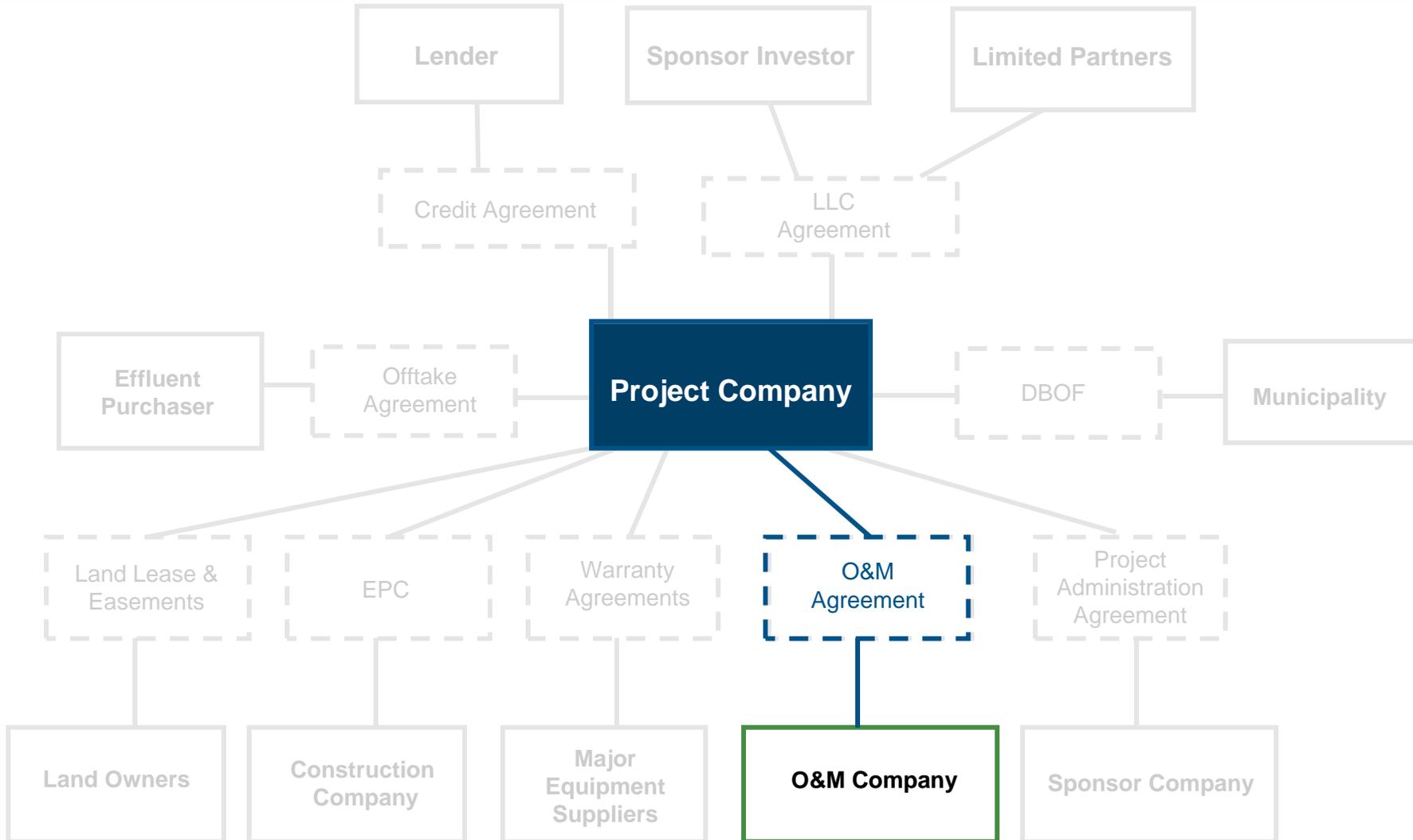
➤ Risks

- Bottlenecks in equipment supply
- Multiple construction and equipment supply contracts
- Cost overruns
- Credit risk and experience of EPC
- Construction delay could trigger consent provisions

➤ Mitigants

- Equipment sourced from reputable, credit worthy supplier
- Fixed Price, turnkey EPC
- Liquidated damages to cover completion delay and performance shortfalls
- Engineering consultant to review permits and construction budget and schedule

O&M Agreement (DBO Agreement)





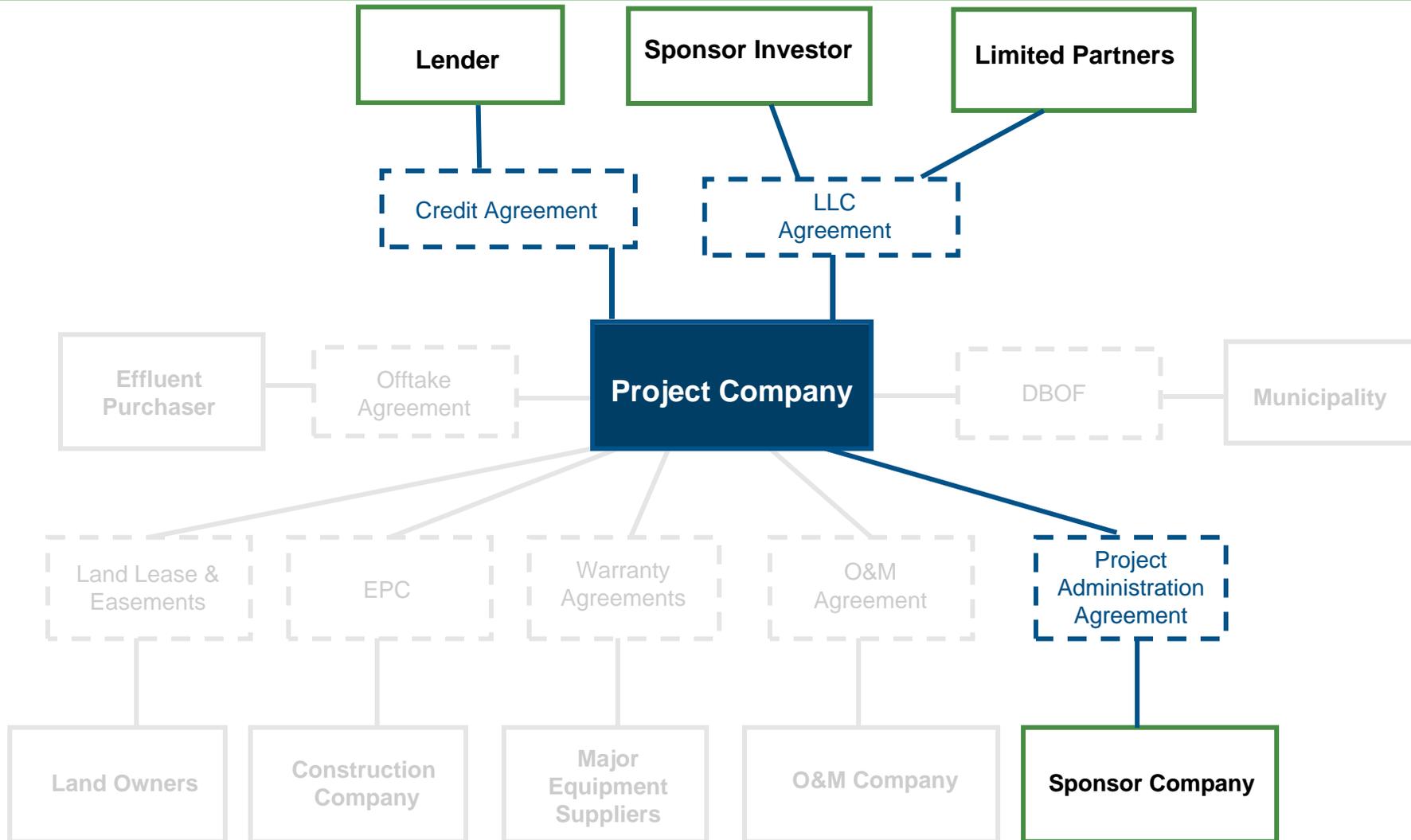
➤ Risks

- Technology
- Process

➤ Mitigants

- Major equipment supplier's track record of performance
- Operator's experience with similar plants
- Term of warranty and financial strength of issuer
- Incentive payments for operator
- O&M reserve based on forecast expenses
- Major maintenance reserve for unexpected costs and scheduled overhauls

Credit Agreement





➤ Risks

- Budget is inadequate to complete construction
- Financial model does not capture contract parameters
- Contracts are unfavorable to sponsor and lenders

➤ Mitigants

- Sound DBOF
- Base case model that captures all variables
- Debt and equity's interest are aligned and therefore should share assumptions
- Adequate reserves
- Experienced project counsel assisting throughout deal
- Contracts reviewed by lender's counsel, IE, and insurance consultant