

From: [Long, Earl C.](#)
To: [Frantz, David](#)
Cc: [Whitcombe, Nicholas](#); [Nichols, Steven T.](#)
Subject: FW: Credit Subsidy Cost Estimates
Date: Friday, January 22, 2010 4:43:07 PM

It would appear to Georgia Power that there must be something wrong or something we do not understand with regards to the credit subsidy cost estimate. My guess is either the .5% to 1.5% estimate is:

- 1) gross, not net, of the net present value spread to Treasuries of 3/8%, or
- 2) if in fact the estimate is net of the present value of spread to Treasuries, then we simply come up with results well below the estimate

We would really like to discuss to make sure that we are not looking at it wrong, but below is our analysis that is quite different from the estimated subsidy cost provided.

- Our analysis calculated the net present value of the 3/8% spread to Treasuries as equal to at least \$160MM (4.6%) of the loan amount. The calculation used a 4.5% discount rate and applied the amortization schedule.
- As a result, the gross subsidy cost would have to be 5.1%-6.1% to end up at a net subsidy cost estimate of .5%-1.5%.
- We have done internal calculations that came up with gross subsidy estimates of .41% based on a Moody's study of regulated utility probabilities of default and recoveries. That would mean the cost estimate given to us (if in fact it is a net subsidy cost) is 12-15X higher than what we calculated internally. Our assumed recovery rate was 87% per the Moody's study.
- We would have to assume a probability of default curve of BB- (assuming an 87% recovery rate) to get to subsidy cost estimates in the range of 5.1% to 6.1%. Even if you lower the recovery rate to 55% (which we do not agree with), the probability of default curve would still only be equal to a BBB- credit which is well below our current "A" rating. Something's not adding up - and it doesn't make sense to us.

Please let me know if we can discuss.

Sincerely,
Earl Long

-----Original Message-----

From: Whitcombe, Nicholas [<mailto:Nicholas.Whitcombe@hq.doe.gov>]
Sent: Wednesday, January 20, 2010 12:59 PM
To: Long, Earl C.
Cc: Frantz, David; Nichols, Steven T.
Subject: RE: Credit Subsidy Cost Estimates

Earl,

The credit subsidy estimate provided to Georgia Power factors in (subtracts) the net present value of the FFB spread.

Nick

-----Original Message-----

From: Long, Earl C. [<mailto:eclong@southernco.com>]
Sent: Wednesday, January 20, 2010 11:02 AM
To: Whitcombe, Nicholas
Cc: Frantz, David; Nichols, Steven T.

Subject: FW: Credit Subsidy Cost Estimates

I have assumed that the net present value of the spread from the FFB loan would be subtracted from the attached estimate and this is a gross estimate of our credit subsidy cost and does not subtract the net present value spread of the FFB loan.

Please confirm formally as to whether the attached estimate is gross or net of the net present value of an estimated spread for the FFB loan.

Earl

-----Original Message-----

From: Vawter, Linda [<mailto:Linda.Vawter@hq.doe.gov>]

Sent: Friday, January 15, 2010 2:54 PM

To: Long, Earl C.

Cc: Frantz, David; Cestari, Kenneth

Subject: Credit Subsidy Cost Estimates

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