Making Investment Decisions During the Environmental Policy Debate

Presentation to: Harvard Electricity Policy Group

Brian Ward
Chief Risk Officer, GE Energy Financial Services
Sept. 27, 2013

$18B assets, 300 investments, $28B in volume since 2004

Diverse portfolio; aligned with GE's industrial segments

Across energy spectrum

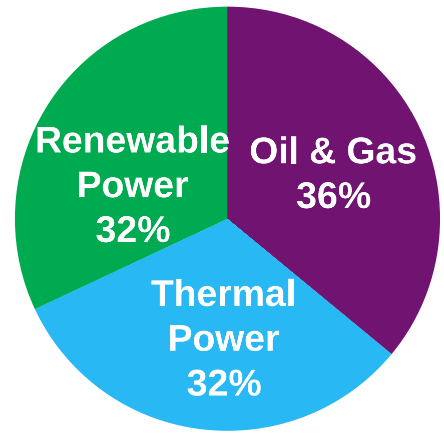
- Renewables
- Power
- Midstream
- Oil & Gas

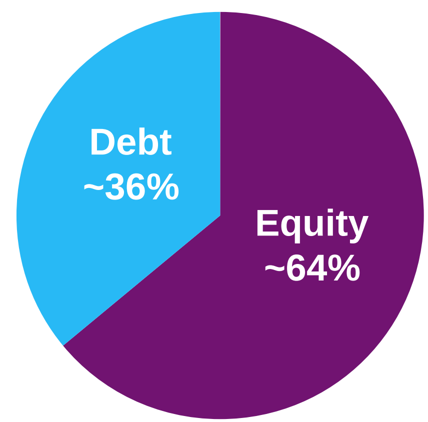
Across capital structure

- Financing & Investing

Across geographies

- North America, Europe, Latin America, Australia, India





Going strong for 30+ years … core to GE

Investment strategy was driven by transaction structure

Underwriting focus on "project finance model" to cut transaction costs, given certainty of revenues:

a. Long-term contract with utility offtake
b. Adequate subordinated capital
c. Strength of regulatory regime – rule of law
d. Inherent asset value

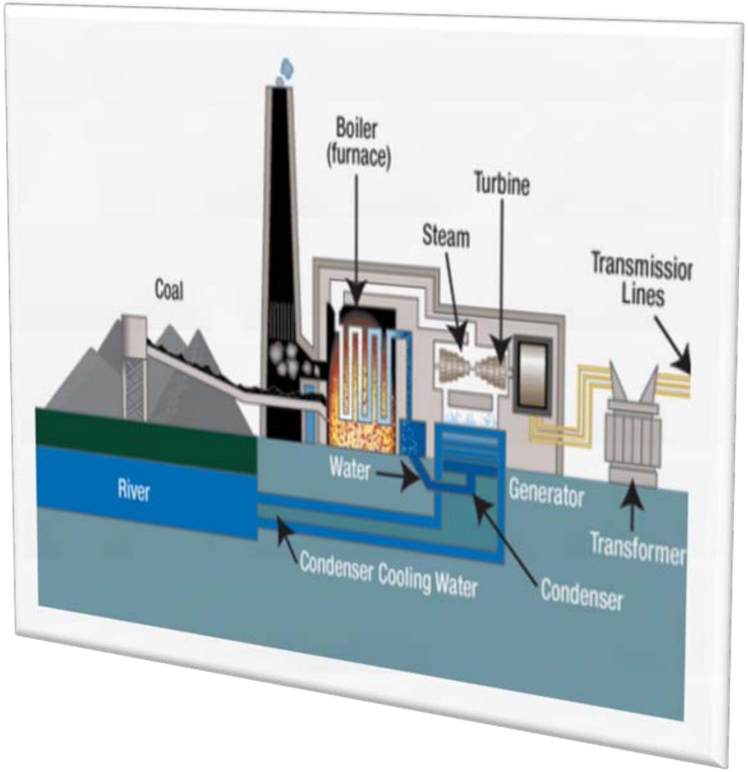
GE invested at lower cost of capital for term matching asset's life

Generally, left technology decisions to utilities and state regulators

Move to Organized Markets has Changed Underwriting Analysis

Trend: impose regulatory risk on asset owners, assuming it can be passed to load through rational market behavior

But short-term markets for long-lived assets create imperfect signals, especially for power, which cannot be withheld or stored



Investors forced to consider:

- Relative fuel costs
- Trends for load growth
- Policy trends and consumer views
- Hedging; risk mitigation
- *Potential for long-term upside to offset risks?*

All power technologies carry risk of environmental regulatory change

- COAL: SOx and NOx drive coal supply choices (NAPP, CAPP, PRB); can scrubber costs be recouped? Will policies eliminate coal in energy mix?
- GAS: Technical obsolescence reducing ability to compete; invest in peakers (flexible, but limited hours) vs. CC (baseload, high capital cost); Will policies reduce role of gas in energy mix?
- RENEWABLES: How many thermal asset retirements? Sufficient grid support from thermals to limit economic curtailment? Increased focus on endangered species/community opposition to siting

1. **Stay diversified**
   Portfolio approach with eye toward "self-hedging"
2. **Find "fee for services" opportunities**
3. **Forecast revenues based on margin, not Capacity Factor**
4. **Invest higher in capital structure**
5. **Keep acquisition costs low**; amortize over shorter life
6. Risk-weight target return appropriately. **Not every deal gets done**

Oil and gas reserve segment paired with legacy coal investments; large renewables portfolio, partially dependent on US tax credits

Midstream pipeline investments

Well- located assets with strategic advantage, e.g. Linden, NJ

Lending to merchant asset sponsors

"Catch the keys"

Rational responses driven by underwriting fundamentals