ASSURANT INC
Form 8-K
January 31, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): 01/31/2012

Assurant, Inc.
(Exact name of registrant as specified in its charter)

Commission File Number: 001-31978

DE	**39-1126612**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

One Chase Manhattan Plaza, 41st Floor
New York, New York 10005
(Address of principal executive offices, including zip code)

(212) 859-7000
(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] **Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)**

[ ] **Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)**

[ ] **Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))**

[ ] **Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))**

Item 8.01. Other Events

On January 31, 2012, Assurant, Inc. issued a news release announcing the entry by certain of its subsidiaries into reinsurance agreements with Ibis Re II Ltd., a special purpose reinsurance company domiciled in the Cayman Islands, in connection with a fully collateralized catastrophe reinsurance bond program. A copy of the news release describing the transaction is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

Exhibit 99.1 News Release issued by Assurant, Inc. on January 31, 2012.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Assurant, Inc.

Date: January 31, 2012

By: /s/ Stephen W. Gauster

Stephen W. Gauster
Senior Vice President, Chief Corporate Counsel and Assistant Secretary

EXHIBIT INDEX

Exhibit No.	Description
EX-99.1	News Release issued by Assurant, Inc. on January 31, 2012

ONT SIZE=2> $239,169

(1) The bonds are collateralized by an irrevocable letter of credit and provide for interest at variable rates. The weighted-average interest rates on the bonds were 2.30% and 3.77% for the years ended December 31, 2008 and 2007, respectively. Remarketing fees paid to the remarketing agent were approximately $100,000 in both 2008 and 2007. These fees are included in interest expense in the accompanying consolidated statements of operations.

(2) Loan payable is collateralized by equipment. The term is 60-months commencing July 2004 with interest fixed at 6.25%.

(3) The term loans accrue interest at the applicable London Interbank Offered Rate ("LIBOR"), plus an applicable margin (1.125% at December 31, 2008). The weighted average interest rates on the term loan were 4.74% and 6.63%, for 2008 and 2007, respectively.

(4) The letter of credit fee for 2008 and 2007 was 1.125%. In addition, the facility provides for a fronting fee of 0.175% on the stated amount which is included in interest expense in the accompanying consolidated statements of operations.

(5) The letter of credit fee for 2008 and 2007 was 1.50%. In addition, the facility provided for a fronting fee of 0.175% on the stated amount which is included in interest expense in the accompanying consolidated statements of operations.

(6) All bonds, loans and credit facilities are collateralized by the assets of the Project and the real estate covered by the ground lease (Note 1) and are nonrecourse to the Partners. These agreements require compliance with certain negative and affirmative covenants. The Partnership was in compliance with all debt covenants at December 31, 2008.

(7) As of December 31, 2008 and 2007, there were no amounts available under the letter of credit commitments.

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Chambers Cogeneration Limited Partnership

Notes to Consolidated Financial Statements (Continued)

December 31, 2008 and 2007

5. Long-Term Debt (Continued)

Future minimum payments as of December 31, 2008 are as follows:

(in thousands of dollars)	
2009	$ 23,920
2010	27,628
2011	28,235
2012	30,439
2013	26,957
Thereafter	101,980
	$ 239,159

Interest Rate Swap Agreements

The Partnership is a party to three amortizing interest rate swap agreements with notional amounts outstanding aggregating $139,066,000 at December 31, 2008 and expiring on various dates through March 31, 2014. Swap payments related to the agreements covering the variable rate bank debt are made based on the spread between 6.081% (weighted average of all agreements as of December 31, 2008) and LIBOR multiplied by the notional amounts outstanding. Net amounts paid to the counterparties were approximately $3,935,000 and $1,287,000 in 2008 and 2007, respectively. These amounts were recorded as interest expense in the accompanying consolidated statements of operations.

6. Payment in Lieu of Taxes

In January 1991, the Partnership entered into a Payment in Lieu of Taxes ("PILOT"), agreement with the Township of Carneys Point, a municipal corporation of the state of New Jersey, which exempts the Partnership from certain property taxes. The agreement commenced on January 1, 1994, and will terminate on December 31, 2033. PILOT payments are due quarterly and are expensed as incurred over the term of the agreement. The Partnership expensed approximately $2,400,000 and $2,300,000 related to the PILOT which is included in general and administrative in the accompanying consolidated statements of operations for the years ended December 31, 2008 and 2007, respectively.

As of December 31, 2008, future payments remaining under the PILOT are as follows:

(in thousands of dollars)	
2009	$ 2,600
2010	2,700
2011	2,800
2012	3,000
2013	3,400
Thereafter	122,300
	$ 136,800

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Chambers Cogeneration Limited Partnership

Notes to Consolidated Financial Statements (Continued)

December 31, 2008 and 2007

7. Fair Value of Financial Instruments

The fair value of the Partnership's swap agreements, based upon Level 2 significant other observable inputs, is estimated to be a liability of approximately $16,292,000 and $10,267,000 as of December 31, 2008 and 2007, respectively (Notes 2 and 5). The valuation of the Partnership's swap agreements is based on widely accepted valuation techniques including discounted cash flow analyses which take into consideration among other things the contractual terms of the swap agreements, observable market based inputs when available, interest rate curves and counterparty credit risk. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair value estimates as of December 31, 2008 and 2007, are not necessarily indicative of amounts the Partnership could have realized in current markets.

The carrying amounts of the Partnership's cash and cash equivalents, restricted cash, accounts receivable, other assets, accounts payable, due to affiliates, accrued liabilities and loan payable approximate their fair value at December 31, 2008, due primarily to their short-term nature. The fair value of the Partnership's bonds and term loans payable approximates the carrying value due to the variable nature of the interest obligations thereon.

8. Concentrations of Credit Risk

Credit risk is the risk of loss the Partnership would incur if counterparties fail to perform their contractual obligations. The Partnership primarily conducts business with counterparties in the energy industry. This concentration of counterparties may impact the Partnership's overall exposure to credit risk in that its counterparties may be similarly affected by changes in economic, regulatory or other conditions. The Partnership mitigates potential credit losses by dealing, where practical, with counterparties that are rated investment grade by a major credit rating agency or have a history of reliable performance within the energy industry.

The Partnership's credit risk is primarily concentrated with AE, DuPont and the Partnership's coal supplier. AE and DuPont provided 84.9% and 15.1%, respectively, of the Partnership's revenues for the year ended December 31, 2008 and accounted for approximately 81.1% and 18.9%, respectively, of the Partnership's accounts receivable balance at December 31, 2008. The Partnership has a coal supply contract with Consolidated Coal Company, Consolidated Pennsylvania Coal Company, Consolidated Coal Sales Company and Nineveh Coal Company (together "Consol") who are responsible for providing 100% of the Company's coal requirements through 2014. The Partnership's credit risk is also impacted by the credit risk associated with its issuing bank of the bond letter of credit, Dexia Credit Locale.

The Partnership is exposed to credit-related losses in the event of nonperformance by counterparties to the Company's interest rate swap agreements (Notes 2 and 5). The Partnership does not obtain collateral or other security to support such agreements, but continually monitors its positions with, and the credit quality of, the counterparties to such agreements.

9. Commitments and Contingencies

Power Purchase Agreement

The Partnership has a power purchase agreement ("PPA") with AE for sales of the Facility's power output during a 30-year period commencing in 1994. The PPA provides AE with dispatch rights over

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Chambers Cogeneration Limited Partnership

Notes to Consolidated Financial Statements (Continued)

December 31, 2008 and 2007

9. Commitments and Contingencies (Continued)

the Facility. The pricing structure provides for both capacity and energy payments. Capacity payments are fixed over the life of the contract. Energy payments are based on a contractual formula which is adjusted annually, as defined in the PPA, based on a utility coal index.

Power Sales Agreement

The Partnership has entered into a supplemental power sales agreement ("PSA") with AE which provides the Partnership self-dispatch rights for both undispatched PPA and excess energy as well as the right to market excess capacity. The pricing structure provides for both capacity and energy payments. The Partnership shares margins on the self-dispatched energy with AE based on hourly wholesale prices. Excess capacity is sold in PJM's periodic auctions and the resulting revenue is shared between the Partnership and AE. The PSA expires on July 31, 2010.

Steam and Electricity Sales Agreement

The Partnership has a steam and electricity sales agreement with DuPont (the "DuPont Agreement") for a 30-year period commencing in 1994. Thereafter, the agreement will remain in effect unless terminated by either party upon at least 36 months' notice. DuPont is required to purchase a minimum of 525,600,000 pounds of process steam per year and no minimum amount of electricity. The steam price is adjusted quarterly based on coal price index formulas defined in the agreement. The electricity price is also adjusted quarterly based on coal price index formulas and the AE average retail rate, as defined in the agreement. The Partnership has an ongoing dispute with DuPont over electric energy payment calculation. Amounts under dispute have not been reflected in revenues in the accompanying consolidated statements of operations.

Lease Commitments

The Partnership leases certain equipment under noncancelable operating leases expiring at various dates through 2022. For the years ended December 31, 2008 and 2007, the Partnership incurred lease expense of approximately $252,000 and $251,000, respectively, which is included in operations and maintenance expense and general and administrative expense in the accompanying consolidated statements of operations.

Future minimum lease payments under the terms of the noncancelable operating agreements, as of December 31, 2008, are as follows:

(in thousands of dollars)	
2009	$ 202
2010	201
2011	196
2012	194
2013	192

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Chambers Cogeneration Limited Partnership

Notes to Consolidated Financial Statements (Continued)

December 31, 2008 and 2007

9. Commitments and Contingencies (Continued)

Environmental

The Partnership is subject to the compliance provisions of Regional Greenhouse Gas Initiative ("RGGI"), a mandatory, market-based CO_2 emissions reduction program in ten Northeast and Mid- Atlantic states. Under RGGI the Partnership will be able to use CO_2 allowances issued by any of the ten participating states to demonstrate compliance with the state of New Jersey program. RGGI which is effective January 1, 2009, limits the Facility's CO_2 emissions and requires a 10 percent reduction in CO_2 emissions by 2018. RGGI also requires that the Partnership hold allowances covering the Facility's CO_2 emissions which as of December 31, 2008, the Partnership anticipates the compliance will cost approximately $5,000,000 for 2009 based on estimated CO_2 emissions of 2.0 million tons.

Litigation

In 2005 the Partnership filed a lawsuit in New Jersey against Consol for failure to perform under the coal supply agreement. Consol made counter claims seeking damages against the Partnership. On December 29, 2006 the Partnership and Consol entered into a settlement agreement which provides for a $0.77 per ton surcharge on future coal purchases until such surcharges total $4,750,000. In return, Consol acknowledges its obligation to provide the full coal requirements of Chambers, up to the maximum quantity defined in the coal purchase agreement, irrespective of the underlying PPA, PSA or Dupont Agreement. On February 2, 2007, the parties dismissed the case with prejudice.

The Partnership experiences routine litigation in the normal course of business. Management is of the opinion that none of this routine litigation will have a material adverse effect on the Partnership's consolidated financial position or results of operations.

10. Related Parties

The Partnership has a management services agreement with PSC to provide day-to-day management and administration of the Partnership's business relating to the Facility through September 20, 2018. Compensation to PSC under the agreement includes a monthly fee of $50,000, wages and benefits for employees working on behalf of the Partnership and other costs directly related to the Partnership. The Partnership recorded related expense of $1,971,000 and $1,927,000 in general and administrative expenses in the consolidated statements of operations in 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Partnership owed PSC approximately $116,000 and $144,000, respectively, which is included in due to affiliates in the accompanying consolidated balance sheets. Under the terms of the agreement, $50,000 of the amounts owed for each of 2008 and 2007 is subordinate to debt service for the Partnership's bonds payable and term loans.

The Partnership has an operations and maintenance agreement with OSC for operations and maintenance of the Facility through March 6, 2009. The agreement is automatically renewed for periods of 5-years until terminated by either party upon 12-months notice. Compensation to OSC under the agreement includes (i) reimbursement of direct and indirect operational expenses; (ii) a base fee of $600,000 per year; (iii) additional fees based on targeted facility performance; and (iv) a management performance bonus of up to $150,000 per year, primarily based on the safe operation of the facility as measured by accepted industry metrics. These fees are adjusted annually by a measure of inflation as defined in the agreement. If the targeted facility performance is not reached, OSC will pay liquidated

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Chambers Cogeneration Limited Partnership

Notes to Consolidated Financial Statements (Continued)

December 31, 2008 and 2007

10. Related Parties (Continued)

damages to the Partnership. The related expense of approximately $9,556,000 and $9,024,000 is recorded in operations and maintenance expenses in the consolidated statements of operations in 2008 and 2007, respectively. As of December 31, 2008 and 2007, the Partnership owed OSC approximately $280,000 and $487,000 respectively, which is included in due to affiliates in the accompanying consolidated balance sheets. As of December 31, 2008 and 2007, the Partnership has accrued for fees and bonuses of $1,832,000 and $2,052,000, respectively, which is included in due to affiliates in the accompanying consolidated balance sheets. Included in the amounts owed at December 31, 2007 was $492,000 of capitalized software costs which is included in property and equipment on the accompanying consolidated balance sheet. Included in other current assets and other assets at December 31, 2008 are $160,000 and $240,000, respectively, of capitalized costs with affiliates. As of December 31, 2008 and 2007, approximately $549,000 and $607,000 had been advanced to OSC and is included in other current assets in the accompanying consolidated balance sheets. Under the terms of the agreement, approximately $591,000 and $765,000 of the amounts owed at December 31, 2008 and 2007, respectively, is subordinate to the debt service for the Partnership's bonds payable and term loans.

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Gregory Partners, LLC and Gregory Power Partners, L.P.

Combined Financial Statements

December 31, 2009 and 2008

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The combined financial statements of Gregory Partners, LLC, and Gregory Power Partners, L.P., for the years ended December 31, 2009 and 2008, are presented herein without the related report of independent accountants.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 5,976,650	$ 5,189,868
Accounts receivable	11,333,532	9,641,457
Spare parts inventories	4,042,634	4,257,200
Prepaid expenses	401,758	1,751,253
Derivative asset gas swap contracts	8,560,010	12,971,861
Total current assets	30,314,584	33,811,639
Property, plant and equipment, net	153,936,483	161,859,053
Other assets		
Restricted cash and cash equivalents	35,777,376	43,788,715
Deposits	500,000	500,000
Deferred financing costs, net	1,407,574	1,782,763
Total assets	$ 221,936,017	$ 241,742,170
Liabilities and Partners' and Members' Capital		
Accounts payable and accrued liabilities	$ 14,770,444	$ 11,024,545
Current portion of long-term debt	9,424,991	9,644,306
Total current liabilities	24,195,435	20,668,851
Derivative liability interest rate swap contract	6,463,451	9,895,188
Long-term debt	84,632,202	101,435,444
Asset retirement obligation and other	2,258,306	1,926,091
Total liabilities	117,549,394	133,925,574
Commitments and Contingencies (See Note 14)		
Partners' and members' capital		
Contributed capital	30,330,329	30,330,329
Accumulated other comprehensive loss	(6,463,451)	(9,895,188)
Retained earnings	80,519,745	87,381,455
Total partners' and members' capital	104,386,623	107,816,596
Total liabilities and partners' and members' capital	$ 221,936,017	$ 241,742,170

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Operations

Years Ended December 31, 2009 and 2008

	2009	2008
Revenues		
Electricity	$ 103,436,357	$ 195,978,663
Steam	48,467,709	133,090,568
Other	3,407,688	7,727,498
Total revenue	155,311,754	336,796,729
Operating expenses		
Fuel purchased	109,578,737	279,552,454
Operation and maintenance	24,472,247	20,705,193
Depreciation, amortization and accretion	8,710,155	8,701,677
General and administrative	6,442,707	5,459,489
Total operating expenses	149,203,846	314,418,813
Income from operations	6,107,908	22,377,916
Other income (expense)		
Interest income	29,184	1,173,676
Interest expense	(5,847,066)	(8,278,857)
Gain on derivative contracts	6,756,649	7,529,777
Income before income taxes	7,046,675	22,802,512
Income tax expense	381,517	374,024
Net Income	6,665,158	22,428,488
Other comprehensive income (loss)		
Change in the fair value in the interest rate swap contracts	3,431,737	(4,992,609)
Comprehensive Income	$ 10,096,895	$ 17,435,879

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Changes in Partners' and Members' Capital

Years Ended December 31, 2009 and 2008

	Contributed Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2007	$ 30,330,329	$ (4,902,579)	$ 126,205,446	$ 151,633,196
Net income			22,428,488	22,428,488
Distributions			(61,252,479)	(61,252,479)
Other comprehensive loss		(4,992,609)		(4,992,609)
Balance, December 31, 2008	30,330,329	(9,895,188)	87,381,455	107,816,596
Net income			6,665,158	6,665,158
Distributions			(13,526,868)	(13,526,868)
Other comprehensive gain		3,431,737		3,431,737
Balance, December 31, 2009	$ 30,330,329	$ (6,463,451)	$ 80,519,745	$ 104,386,623

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Net income	$ 6,665,158	$ 22,428,488
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and accretion	8,710,155	8,701,677
Amortization of deferred financing costs	375,189	412,707
Net derivative activity	(6,756,649)	(7,529,777)
Deferred tax liability	118,207	
Changes in assets and liabilities:		
Accounts receivable	(1,692,075)	12,360,399
Spare parts inventories	214,566	(741,647)
Prepaid expenses	1,349,495	246,913
Accounts payable and accrued liabilities	3,745,899	(1,284,512)
Net cash provided by operating activities	12,729,945	34,594,248
Cash flows from investing activities		
Purchases of property, plant and equipment	(573,577)	(778,689)
Net change in restricted cash	8,011,339	33,510,725
Cash flows from derivatives	11,168,500	157,500
Net cash provided by investing activities	18,606,262	32,889,536
Cash flows from financing activities		
Payment of long-term debt	(17,022,557)	(10,589,577)
Distributions to partners	(13,526,868)	(61,252,479)
Net cash used in financing activities	(30,549,425)	(71,842,056)
Net change in cash and cash equivalents	786,782	(4,358,272)
Cash and cash equivalents		
Beginning of the period	5,189,868	9,548,140
End of the period	$ 5,976,650	$ 5,189,868
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 5,476,768	$ 7,854,148

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements

December 31, 2009 and 2008

1. Organization

Gregory Partners, LLC, and Gregory Power Partners, L.P. (collectively, the "Company," the "Partnership" or "Gregory") were organized on June 1, 1998, as a Delaware limited liability company and a Texas limited partnership, respectively, for the sole purpose of developing, financing, constructing, owning and operating a 500-megawatt (equivalent) cogeneration facility (the "Facility") at the Sherwin Alumina, L.P. (formerly Reynolds Metal Company) (BPU Reynolds, Inc.) plant near Gregory, Texas. The Facility commenced commercial operations on July 15, 2000. The Company operates as a Qualifying Facility ("QF") pursuant to the Public Utility Regulatory Policies Act ("PURPA"). The Partnership is operated pursuant to the Gregory Partnership Agreement dated June 1, 1998 (the "Partnership Agreement"). The operation and maintenance services are provided by subsidiaries of Babcock & Wilcox Company ("B&W"), an unaffiliated company.

Partnership interests are owned by subsidiaries of Javelin Holding, LLC ("Javelin Holding"), a wholly owned subsidiary of Javelin Energy, LLC ("Javelin Energy") and a subsidiary of DPC KY Energy LLC a wholly owned subsidiary of Delta Power Company, LLC ("Delta") called KY Energy, LLC. KY Energy, LLC holds a 4% limited partner interest in Gregory Partners, LLC and Gregory Power Partners, L.P. KY Energy, LLC also holds through its subsidiaries KY Energy Power Gregory #1, Inc. and KY Energy Power Gregory #2, Inc. a 1% general partner interest in Gregory Partners, LLC and Gregory Power Partners, LP. Subsidiaries of Javelin Energy hold a 94% limited partnership interest and a 1% general partnership interest. Javelin Energy is owned by the following six entities: (1) DPC Javelin Energy, LLC, a wholly owned subsidiary of Delta; (2) John Hancock Variable Life Insurance Company; (3) Epsilon Power Funding, LLC (4) John Hancock Life Insurance Company (5) JH Partnership Holdings I, LP; and (6) JH Partnership Holdings II, LP.

Under the terms of the Partnership Agreement, the Partnership's profits, losses, and distributions are divided equally, based on ownership percentages, among the Gregory partners.

The following chart shows the general partners and members managers designated by an asterisk (*) and the Limited Partners and Members of the Company as of December 31, 2009 and December 31, 2008:

	Gregory Partners, LLC	**Gregory Power Partners, LP**
Javelin Holding, LLC		
* Javelin Gregory General Corporation		1%
Gregory Holdings #1, LLC		94%
* Javelin Gregory Remington Corporation	1%	
Gregory Holdings #2, LLC	94%	
KY Energy, LLC		
* KY Energy Power Gregory #1 Inc.		1%
KY Energy, LLC		4%
* KY Energy Power Gregory #2 Inc.	1%	
KY Energy, LLC	4%	

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

2. Business Risks

Several current issues in the power industry could have an effect on the Company's financial performance. Some of the business risks and uncertainties that could cause future results to differ from historical results include, but are not limited to:

The uncertain length and severity of the current depressed general financial and economic downturn, the timing and strength of an economic recovery, if any, and their impacts on the Company's business, including demand for power, and the ability of contractual counterparties to perform under their contracts with the Company;

The Company's ability to manage its customers and counterparty exposure and credit risk;

Competition, including risks associated with marketing and selling power in the evolving energy markets;

Regulation in the markets in which the Company participates and the Company's ability to effectively respond to changes in federal, state and regional laws and regulations;

Natural disasters, such as hurricanes, earthquakes and floods, or acts of terrorism that may impact the Company's power plant or the market it serves;

Seasonal fluctuations of the Company's results and exposure to variations in weather patterns;

Disruptions in, or limitations on, the transportation of natural gas and transmission of power;

Risks associated with the operation of a power plant including unscheduled outages and plant inefficiencies;

Present and possible future claims, litigation and enforcement actions;

The expiration or termination of the Company's Power Purchase Agreements and the related results on revenues.

3. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and include the accounts of Gregory Partners, LLC, and Gregory Power Partners, L.P. All significant intercompany accounts and transactions have been eliminated upon combination. The combination results from the fact that the companies operate under common control and have significant financial interests in one another. The significant financial interests relate to the cross collateralization of the assets of the Company's debt agreement as described in Note 6.

Reclassifications

Certain reclassifications have been made to the combined balance sheets, combined statements of operations, and combined statements of cash flows, to conform to current year presentation.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of the Company's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures included in the combined financial statements. Actual results could differ from these estimates.

Significant estimates made by the Company include reserves for doubtful accounts receivable, inventory obsolescence, accrued expenses, and estimates of discounted future cash flows used in evaluating assets for impairments.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a term to maturity of three months or less at the date of purchase to be cash and cash equivalents.

Accounts Receivable and Accounts Payable

Accounts receivable and payable represent amounts due from customers and owed to vendors. Accounts receivable are recorded at invoiced amounts, net of reserves and allowances as applicable, and do not bear interest. Receivable balances greater than 30 days past due are individually reviewed for collectability, and if deemed uncollectible, are charged off against the allowance accounts after all means of collection have been exhausted and the potential recovery is considered remote. The Company uses an estimate to determine the required allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, economic trends, significant one-time events, and historical write-off experience. Specific provisions are recorded for individual receivables when the Company becomes aware of a customer's inability to meet its financial obligations. Reserves and allowances are reviewed annually. No allowance was recorded as of December 31, 2009 and 2008.

Spare Parts Inventory

Spare parts inventories are valued at the lower of cost or market, with cost determined using a weighted average. The costs are expensed to plant operating costs as the parts are utilized and consumed.

Accounting for the Impairment of Long-Lived Assets

The Company evaluates long-lived assets, such as property, plant and equipment, when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. When an impairment condition may have occurred, the Company is required to estimate the undiscounted future cash flows associated with a long-lived asset or group of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets or liabilities for long-lived assets that are expected to be held and used.

In order to estimate future cash flows, the Company considers historical cash flows and changes in the market environment and other factors that may affect future cash flows. To the extent applicable,

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

the assumptions are consistent with forecasts that the Company is otherwise required to make. The use of this method involves inherent uncertainty. The Company uses its best estimates in making these evaluations and considers various factors, including forward price curves for power, fuel costs, and operating costs. However, actual future market prices could vary from the assumptions used in the estimates, and the impact of such variations could be material.

During 2009 and 2008, long-lived assets were reviewed and it was determined that no impairment condition had occurred.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method or machine-hours method. Property, plant and equipment accounts are relieved of the cost and related accumulated depreciation when assets are disposed of or otherwise retired.

Planned Major Maintenance Accounting

The Company recognizes all expenses related to the Long-Term Service Agreement ("LTSA") with General Electric International, Inc. when occurred. See more detail in Note 9.

Deferred Financing Costs

Financing costs incurred related to the debt issuance are deferred and amortized over the term of related debt using a method that approximates the effective interest rate method. When a debt is retired before its maturity, unamortized deferred costs are written off and other debt extinguishment costs related to retirement of debt are recognized in the period of extinguishment. For the years ended December 31, 2009 and 2008, the Company recorded amortization expense of $375,189 and $412,707, respectively and was recorded in interest expense on the accompanying combined statements of operations. As of December 31, 2009 and 2008, accumulated amortization was $4,545,591 and $4,320,402, respectively.

Restricted Cash and Cash Equivalents

The Company has established escrow accounts held by a trustee pursuant to the terms of the project financing arrangement as described in Note 6. These funds are held by trustees and are restricted as to payments for future maintenance on property and equipment, future operating costs and future principal and interest payments, subject to the terms of the project financing arrangement.

Accounting for Asset Retirement Obligations

The Company has recorded all known asset retirement obligations for which the liability's fair value can be reasonably estimated under Financial Accounting Standards Board "FASB" ASC Topic 410, Asset Retirement and Environmental Obligations. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. The Company's asset retirement obligations primarily relate to site restoration costs, including

Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

removal costs, environmental remediation ground water monitoring, and the purchase of an environmental insurance policy.

Under these accounting methods, the Company recorded an asset of $829,112, representing the net present value of the Year 2030 asset retirement obligation utilizing a 10.0% risk free cost of capital and a liability of $1,023,595 for the asset retirement obligation as of January 1, 2003. In addition, the Company will expense an amount equal to (a) the straight-line depreciation of the site dismantlement asset of $829,112 and (b) an amount equal to the annual increase in the site dismantlement liability, assuming a 2.5% annual inflation rate through the end of the lease term. Accretion expense was $214,008 and $192,612 for the years ended December 31, 2009 and 2008, respectively.

Scheduled depreciation expense and accretion expense is as follows:

	Depreciation Expense	Accretion Expense
2010	$ 27,637	$ 237,787
2011	27,637	264,208
2012	27,637	293,564
2013	27,637	326,182
2014	27,637	362,425
After 2014	428,374	14,904,953
	$ 566,559	$ 16,389,119

Derivative Instruments

The Company follows applicable U.S. accounting standards in accounting for derivative instruments and hedging activities. These standards require all derivatives to be recognized on the balance sheet and measured at fair value. The Company records the fair value of derivatives in current assets, long-term assets, current liabilities or long-term liabilities, as appropriate. If a derivative is designed to meet hedge accounting criteria, the Company is required to measure the effectiveness of the hedge. The effective portion of the gain (loss) on the derivative instrument is recognized in other comprehensive income as a component of equity and, subsequently, reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of a derivative's change in fair value is required to be recognized in earnings immediately. Derivatives that do not qualify for hedge treatment must be recorded at fair value with gains (losses) recognized in earnings in the period of change.

The Company is required by its project financing arrangement to utilize interest rate swap contracts to reduce its exposure to adverse fluctuations in interest rates on its long-term debt. Such swaps are accounted for as cash flow hedge transactions, with related gains (losses) being recorded in interest expense as realized and changes in the fair value are recorded in other comprehensive income (See Note 10).

The Company has entered into several natural gas swap contracts. These contracts are carried in the Company's Balance Sheet at fair value, with changes in fair value recorded in current earnings in other income on the income statement.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Capacity revenue is recognized monthly, based on the Facility's availability. Revenues from the sale of power, steam, spray water, and ancillary services are recorded upon transmission and delivery to the customer.

Fuel Expense

During 2009 and 2008 the Company purchased about half of its gas from Kinder Morgan Tejas Pipeline, LLC. The remaining half of its gas during this period was delivered to the Company as payment for steam sales to Sherwin Alumina L.P.

Income Taxes

The Company is exempt from federal and state income taxes. Taxable income or loss from the Company is reportable by the partners and members on their respective income tax returns. Accordingly, there is no recognition of income taxes in the combined financial statements. However, Texas imposes its franchise tax at the Company level. Accordingly, a provision and accrual for current and deferred income taxes for Texas franchise tax have been included in our combined financial statements.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive Income

The Company's comprehensive income consists of net income and other items recorded directly to the equity accounts. The objective is to report a measure of all changes in the partners' and members' capital that result form transactions and other economic events of the period other than transactions with owners. The Company's other comprehensive income consists principally of changes in the fair value of interest rate swap contracts that qualify for cash flow hedge treatment.

At December 31, 2009 and 2008, the balance of accumulated other comprehensive loss was $6,463,451 and $9,895,188, respectively, and consisted of the changes in the fair value of the interest rate swap agreements.

Fair Value of Financial Instruments

The Company uses the market and income approaches to determine the fair value of its financial assets and liabilities and considers the markets in which the transactions are executed. Effective in 2009, U.S. accounting standards require the application of fair value measurement criteria to include both financial and non-financial instruments. Inputs into the Company's fair value estimates include

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

market quoted prices, LIBOR, and other liquid money market instrument rates. The interest rates used to calculate the market value of our interest rate swaps are derived from three month LIBOR future rates. The Company considers the impact of counterparty credit risk on the fair value of derivative assets, as well as the Company's own credit risk for derivative liabilities, using the Company's credit spread.

The authoritative guidance related to fair value establishes the fair value hierarchy that prioritizes inputs to valuation techniques based on observable and unobservable data and categorizes the inputs into three levels, with the highest priority given to Level 1 and the lowest priority given to Level 3. The levels are described below:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Significant observable pricing inputs other than quoted prices included with Level 1 that are either directly or indirectly observable as of the reporting date. Essentially, this represents inputs that are derived principally from or corroborated by observable market data; and
Level 3	Generally unobservable inputs, which are developed based on the best information available and may include our own internal data.

Determining the appropriate classification of fair value measurements within the fair value hierarchy requires management's judgment regarding the degree to which market data is observable or corroborated by observable market data. If prices change for a particular input from the previous measurement date to the current measurement date, the impact could result in the financial instrument being moved between Levels, depending upon management judgment of the significance of the price change of that particular input to the total fair value of the financial instrument.

The carrying amounts reported in the balance sheets of cash and cash equivalents, accounts receivable, accounts payable, and other payables approximate their respective fair values due to their short maturities. See Note 12 for disclosures regarding the fair value of other debt instruments and derivatives.

Concentration of Credit Risk

Financial instruments that potentially subject to the Company to credit risk consist primarily of cash and cash equivalents, restricted cash, accounts receivables, and derivatives. Cash and cash equivalents, as well as restricted cash balances, may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits or are invested in money market accounts with investment banks that are not FDIC insured. The Company places cash and cash equivalents and restricted cash in what it believes to be credit-worthy financial institutions and certain of the money market accounts invest in U.S. Treasury securities or other obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities. Management does not believe there is significant risk to the Company relating to the financial institutions. The Company sells power to Sherwin Alumina, L.P. and Fortis Energy Marketing, Inc. under power purchase contracts and accounts receivable are concentrated with these customers. The Company has exposure to trends within the power industry, including declines in the creditworthiness of its significant customers. The Company generally has not collected collateral or

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

other security to support its power-related accounts receivable; however, the Company may require collateral in the future. Management does not believe there is significant credit risk to the Company associated with its significant customers.

The Company has significant customers for 2009 and 2008, as follows:

	2009	2008
Sherwin Alumina, L.P.		
Percentage of combined total revenue	36%	45%
Percentage of combined accounts receivable	21%	9%
Constellation Energy Commodities Group, Inc.		
Percentage of combined total revenue	0%	55%
Percentage of combined accounts receivable	0%	87%
Fortis Energy Marketing, Inc.		
Percentage of combined total revenue	62%	0%
Percentage of combined accounts receivable	79%	0%
Other		
Percentage of combined total revenue	2%	<1%
Percentage of combined accounts receivable	0%	4%

Accounting and Reporting Developments

Accounting Standards Codification and GAAP Hierarchy Effective for interim and annual periods ending after September 15, 2009, the Accounting Standards Codification and related disclosure requirements issued by the FASB became the single official source of authoritative, nongovernmental GAAP. The ASC simplifies GAAP, without change, by consolidating the numerous, predecessor accounting standards and requirements into logically organized topics. All other literature not included in the ASC is non-authoritative. We adopted the ASC as of December 31, 2009, which did not have any impact on our results of operations, financial condition or cash flows as it does not represent new accounting literature or requirements; however, it did change our references to authoritative sources of GAAP to the new ASC nomenclature.

Fair Value Measurements of Non-Financial Assets and Non-Financial Liabilities Effective for interim and annual periods beginning after November 15, 2008, GAAP established new standards related to fair value measurements for non-financial assets and liabilities. These new standards do not apply to assets and liabilities that were not previously required to be recorded at fair value, but do apply when other accounting pronouncements require fair value measurements. The new standards also define fair value, establish a framework for measuring fair value under GAAP and enhance disclosures about fair value measurements. We adopted the new standards with respect to non-financial assets and non-financial liabilities as of January 1, 2009, which had no effect on our results of operations, financial position or cash flows; however, adoption may impact measurements of asset impairments and asset retirement obligations if they occur in the future.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

3. Summary of Significant Accounting Policies (Continued)

Determining Fair Value in Inactive Markets Effective for interim and annual periods beginning after June 15, 2009, GAAP established new accounting standards for determining fair value when the volume and level of activity for the asset or liability have significantly decreased and the identifying transactions are not orderly. The new standards apply to all fair value measurements when appropriate. Among other things, the new standards:

- affirm that the objective of fair value, when the market for an asset is not active, is the price that would be received in a sale of the asset in an orderly transaction;

- clarify certain factors and provide additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active;

- provide that a transaction for an asset or liability may not be presumed to be distressed (not orderly) simply because there has been a significant decrease in the volume and level of activity for the asset or liability, rather, a company must determine whether a transaction is not orderly based on the weight of the evidence, and provide a non-exclusive list of the evidence that may indicate that a transaction is not orderly; and

- require disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and any change in valuation technique (and the related inputs) resulting from the application of the standard, including quantification of its effects, if practicable.

These new accounting standards must be applied prospectively and retrospective application is not permitted. We adopted these new standards during 2009, which resulted in a clarification of existing accounting guidance with no change to our accounting policies and had no effect on our results of operations, cash flows or financial position. See Note 11 for disclosure of our fair value measurements.

Disclosures About Derivative Instruments and Hedging Activities Effective for interim and annual periods beginning after November 15, 2008, GAAP established enhanced disclosure requirements relating to an entity's derivative and hedging activities to enable investors to better understand their effects on the entity's financial position, financial performance, and cash flows. We adopted the new disclosure requirements as of January 1, 2009. Adoption resulted in additional disclosures related to our derivatives and hedging activities including additional disclosures regarding our objectives for entering into derivative transactions, increased balance sheet and financial performance disclosures, volume information and credit enhancement disclosures. See Note 9 for our derivative disclosures.

Subsequent Events Effective for interim and annual periods ending after June 15, 2009, GAAP established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new requirements do not change the accounting for subsequent events: however, they do require disclosure, on a prospective basis, of the date an entity has evaluated subsequent events. We adopted these new requirements during 2009, which had no impact on our results of operations, financial condition or cash flows. We have evaluated subsequent events up to the time of issuance of this Report on April 9, 2010.

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Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

4. Restricted Cash and Cash Equivalents

Pursuant to the Depositary Agreement dated November 18, 1998 (as amended), the Company established certain reserve funds for the operation of the plant: operating account, debt payment account, major maintenance reserve account, DSR account, fuel account, distribution retention account, loss proceeds account, calculation holding account, PSA collateral account, IDR account, shortfall reserve account, and special reserve account. Restricted cash and cash equivalents consist of the following at December 31, 2009 and 2008, respectively:

	2009	2008
Debt Service Reserve	$ 10,000,200	$ 10,078,335
Distribution Retention	1,288,940	1,606,778
Calculation Holding	1,169,591	3,556,426
Major Maintenance	12,920,245	20,301,049
IDR	500,010	564,726
PSA Collateral		8,381
Javelin Equity Support	4	7,289,448
Project Equity Support		383,572
Special Reserve	9,898,386	
Total Restricted Cash and Cash Equivalents	$ 35,777,376	$ 43,788,715

5. Property, Plant and Equipment

Plant and equipment consist of the following at December 31, 2009 and 2008, respectively:

	Useful Lives	2009	2008
Plant and related equipment	5 - 30 years	$ 246,907,519	$ 246,498,709
Office and transportation equipment	3 - 10 years	1,333,292	1,168,525
		248,240,811	247,667,234
Less: Accumulated depreciation		(94,304,328)	(85,808,181)
Net plant and equipment		$ 153,936,483	$ 161,859,053

Depreciation expense for the years ended December 31, 2009 and 2008 amounted to $8,496,147 and $8,509,066, respectively. Approximately 14% of plant and related equipment is depreciated using the machine-hours method in 2009 and 2008.

6. Long-Term Debt

The Company has a 17 year loan, expiring September 30, 2017 with ING Capital, LLC that provides for quarterly principal payments and interest at LIBOR plus 1.375% during 2007 and through October 2, 2008. On October 2, 2008 the interest rate changed to LIBOR plus 1.5%. The effective interest rate at December 31, 2009 and 2008 was approximately 5.2% and 7.3% respectively.

Borrowings are obligations solely of the Company and the lender's collateral is substantially all of the assets of the Company. The lenders have no contractual recourse to the partners. The loan

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Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

6. Long-Term Debt (Continued)

agreement contains various affirmative and negative covenants involving the operation of the Facility, compliance with laws, and incurrence of additional debt and restricted payments.

The most restrictive covenants under the term loan are as follows:

(1) The Company must give prompt notice to ING Capital, LLC of any contractual obligations incurred by the Company exceeding $250,000 per year.

(2) The Company must give prompt notice to ING Capital, LLC of any potential litigation that may exceed $250,000.

Scheduled maturities of the long-term debt are as follows:

2010	$ 9,424,991
2011	10,194,379
2012	10,963,766
2013	11,829,326
2014	12,791,060
After 2014	38,853,671
	94,057,193
Less: Current portion	(9,424,991)
	$ 84,632,202

The fair value of the debt as of December 31, 2009 was approximately $87,148,838.

In November 2008, the Company provided a notice letter to ING Capital, LLC advising that it was in a state of default under the Credit Agreement. The default situation was the result of the expiration of the Texas state authorization in March 2008 for its Prevention of Signification Deterioration ("PSD") Air Permit. The Company signed an Agreed Order with the Texas Commission of Environmental Quality ("TCEQ") on March 24, 2009 which provided the state's authority to operate under the terms of the former PSD Air Permit until a new permit was issued. The Company concurrently provided notice to ING Capital, LLC that the default situation was cured. On March 15, 2010, the new permit was issued.

7. Income Taxes

Under federal income tax rules, the Company is treated as a partnership and is not subject to any entity level federal income tax. However, the Company is subject to the Texas franchise tax which generally imposes a tax at the "margin" level. Income tax expense consists of the following components:

Current	$ 263,310
Deferred	13,187
Prior year true up	105,020

Total income tax expense	$ 381,517

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

7. Income Taxes (Continued)

The federal statutory income tax rate that applies to the Company in the present form is 0%. The income tax provision of $381,517 attributable to continuing operations is the result of applying Texas franchise tax provisions and is the only difference from the amount of income tax expense determined by applying the federal statutory income tax rate. The income tax expense for the Texas franchise tax reflected on the Company's combined statement of operations for the year ended December 31, 2009, includes an expense of $105,020 to revise prior year deferred tax estimates. The Company has an effective tax rate of 5.4% for the year ended December 31, 2009. Excluding the income tax expense that was recorded in 2009 due to revisions of prior year estimate, the Company would have an effective tax rate of 3.9%.

Deferred tax liabilities of $118,207 at December 31, 2009, result from book versus tax basis differences attributable to property, plant, and equipment, and is included in asset retirement obligation and other in the accompanying combined balance sheets.

8. Related Party Transactions

The Company entered into an agreement as of January 1, 2001, whereby it reimburses Delta for salaries and benefits for the General Manager and staff that are assigned to the Company. Payments to Delta for salaries and benefits totaled $559,389 and $497,215 for the years ended December 31, 2009 and 2008, respectively and are included in general and administrative expense in the combined statements of operations. At December 31, 2009 and 2008, respectively, $137,099 and $138,978 were payable to Delta which was included in accounts payable and accrued liabilities in the accompanying combined balance sheets.

9. Significant Agreements with Third Parties

Power Purchase Agreements

Sherwin Alumina, L.P. ("Sherwin")

The Company and Reynolds Metals Company entered into an Energy Services Agreement ("ESA") for a term of 35 years effective June 30, 1998, and ending on the 35-year anniversary of the Commercial Operations Date, ("COD" as defined in the ESA as August 1, 2000). The ESA affords Reynolds the right to purchase a portion of the Company's steam and electricity production for a term ending on the 20-year anniversary of the COD, with a right to extend this term for up to three additional 5-year terms upon providing the Company with at least two years' notice prior to the expiration date. On December 31, 2000, the ESA was assigned to and assumed by BPU Reynolds. On August 1, 2001, the ESA was assigned to and assumed by Sherwin Alumina, L.P. The provisions of the ESA allow Sherwin to provide natural gas in lieu of a cash payment as compensation for the steam they purchase for their production needs. The Partnership records the related steam revenue in revenue and an equivalent natural gas expense recorded in fuel purchased in the accompanying combined statements of operations.

Constellation Energy Commodities Group, Inc ("CCG")

The Company and CCG entered into a power sales agreement ("CCG PSA") as of August 29, 2005, whereby the Company agrees to sell and CCG agrees to purchase certain quantities of electricity

Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

9. Significant Agreements with Third Parties (Continued)

capacity and energy, as well as ancillary service capabilities. The CCG PSA has a term of three years and four months from September 1, 2005, ending December 31, 2008.

The CCG PSA expired on December 31, 2008, and was replaced with a power sales agreement with Fortis Energy Marketing & Trading GP.

Fortis Energy Marketing & Trading GP ("Fortis")

The Company and Fortis entered into a power sales agreement ("Fortis PSA") as of July 23, 2007, whereby the Company agrees to sell and Fortis agrees to purchase certain quantities of electricity capacity and energy, as well as ancillary service capabilities. The Fortis PSA has a term of five years beginning January 1, 2009.

The Fortis PSA calls for a fixed capacity component and a variable energy component. The Fortis PSA includes a provision that requires the Company to provide Credit Support which was delivered to Fortis by the Company in July 2007 in the form of a letter of credit for $10 million. The letter of credit expired on July 23, 2008 Currently, Arroyo DP Holdings, LP, Delta's parent, provides an approximate $1.4 million cash collateral as credit support for this agreement.

The Company is subject to operational and contractual risks associated with the Fortis PSA. Risks include, but are not limited to, output capacity and availability. Management has taken steps to manage physical and contractual risks; however, such risks cannot be eliminated.

Energy Management Agreements

Tenaska Power Services Co. ("TPS")

On December 6, 2006, the Company and TPS entered into an Energy Management Agreement ("EMA") whereby TPS is to provide energy management services for the Facility by acting as the Company's qualified scheduling entity with ERCOT and marketing the excess power (~5 to 55 MWhs) from the Facility generated above the volumes committed to Sherwin, CCG and Fortis. The agreement primary term expired on December 31, 2008. The agreement automatically renewed and will continue to automatically renew for successive one year terms unless terminated by either party by giving a written notice to the other party. No termination notice was produced by either party in 2008 or 2009. The Company provided TPS a cash deposit in lieu of an irrevocable letter of credit in the amount of $500,000 which is included in deposits in the accompanying combined balance sheets.

Gas Purchase and Transportation Agreements

Kinder Morgan

Coral Energy Resources, L.P., Coral Energy, L.P. (together, "Coral") and the Company entered into an Amended and Restated Gas Sales Agreement (the "GSA"), as of November 20, 1998, whereby Coral agrees to sell, at an agreed upon price. to the Company up to 62,000 MMBtu per day of natural gas, the Facility's estimated maximum daily fuel requirement (net of gas supplied by Sherwin). On February 28, 2002, the GSA was assigned to and assumed by Kinder Morgan Tejas Gas Pipeline, which underwent a name change to Kinder Morgan Tejas Pipeline, LLC ("Kinder Morgan"). The Company has no obligation to purchase any gas under the GSA beyond the first two contract years.

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Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

9. Significant Agreements with Third Parties (Continued)

The GSA has a primary term of ten years from the COD (as defined in the ESA as August 1, 2000). The GSA includes a provision that requires the Company to provide additional credit support under certain circumstances.

Tejas Gas Pipeline L.P.

Tejas Gas Pipeline L.P., ("Tejas") and the Company entered into an Amended and Restated Intrastate Gas Transportation Agreement (the "Intrastate Agreement"), as of November 20, 1998, whereby Tejas agrees to provide firm transportation for the Facility of up to 62,000 MMBtu per day of gas.

The Intrastate Agreement has a primary term of ten years from the COD (as defined in the ESA as August 1, 2000), but the Company may terminate the Intrastate Agreement at the end of the fifth contract year upon at least 60 days notice to Tejas.

Constellation NewEnergy, Inc. ("CNE")

On April 27, 2006, the Company and CNE entered into a one year Master Retail Power Sales Agreement, whereby CNE agreed to supply full requirements for electric energy, including standby electricity and provide any additional energy and services as the Company may require in the event it is required to import electricity to support it and/or its steam hosts production requirements. The price of the electricity is the Market Clearing Price of Electricity plus $0.50, with a monthly fee of $3,000. On April 23, 2007, the agreement was extended until April 26, 2008. On February 6, 2008, the agreement was modified to change the term from one year to three years ending on April 26, 2009. On April 27, 2009, the agreement was extended for an additional one year term ending on April 26, 2010. The price of the electricity was also changed to ERCOT's applicable zonal market clearing price for energy for the Delivery Point as posted on its website plus $5.50.

San Patricio Municipal Water District

The Company and the San Patricio Municipal Water District ("SPMWD") entered into a Raw Water Contract (the "RWC") as of September 15, 1998, that provides, in part, that SPMWD will sell and deliver up to 2 million gallons of water per day to the Company. The initial term of the RWC is 20 years. Monthly billings for water sold to the Company are based on rates set annually to recover SPMWD's cost of service. Under the terms of the RWC, SPMWD will reserve specified capacity in its facilities to deliver water to the Facility.

General Electric International, Inc.

The Company and General Electric International, Inc. ("GE") entered into a Long-Term Service Agreement ("LTSA") as of September 30, 2001, whereby GE agrees to manage future planned maintenance and certain additional maintenance with respect to the two gas turbines at the Facility, including the combustion and turbine sections of the covered units and their Mark V control system. The initial term of the contract is the earlier of the time when covered units experience their second major inspection, as described under the contract or 17 years from the effective date of the contract. The contract was amended as of March 31, 2006 to extend the term of coverage until each covered unit

Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

9. Significant Agreements with Third Parties (Continued)

reaches the later of 120,000 factored fired hours of operation or completion of the first hot path inspection after the second major inspection as defined in the contract.

Koch Supply & Trading, LP

On January 7, 2009 the Company entered into an agreement with Koch Supply & Trading, LP ("Koch") for the Company to sell 500 tons of 2009 CAIR Annual NOx Allowances at $5,000 per ton. The $2.5 million payment from Koch was received on February 6, 2009 and was a component of other revenues in the accompanying combined statement of operations.

10. Interest Rate Swap Contract

To protect the project lenders from the uncertainty of interest rate changes during the term of the loan, the Company was required by the project financing agreement to fix or hedge fifty percent (50%) of the original balance of the term loan by entering into an interest rate swap contract. The agreement with ING Capital LLC, dated November 23, 1998, requires the Company to make fixed interest payments at a rate of 5.95% for the term of the loan and the Company will receive interest at a variable rate equal to the rate on the debt hedged. The contract has a notional amount of approximately half of the outstanding principle balance of the loan. The interest rate swap contract matures at the time the related debt matures.

The effective portion of the unrealized gain or loss on an interest rate swap designated and qualifying as a cash flow hedging instrument is reported as a component of other comprehensive income ("OCI") and such gains and losses are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. Gains and losses due to ineffectiveness on interest rate swaps are recognized currently in earnings as a component of interest expense. If it is determined that the forecasted transaction is probable of not occurring, then hedge accounting will be discontinued prospectively and the associated gain or loss previously deferred in OCI is reclassified into current income. If the hedging instrument is terminated or de-designated prior to the occurrence of the hedged forecasted transaction, the gain or loss associated with the hedge instrument remains deferred in OCI until such time as the forecasted transaction impacts earnings, or until it is determined that the forecasted transaction is probable of not occurring.

As of December 31, 2009 and 2008, the Company had recorded cumulative losses of $6,463,451 and $9,895,188, respectively, in other comprehensive income. Upon termination of the loan and swap contract any amount recorded in other comprehensive income will be reclassified into earnings.

11. Natural Gas Swap Contracts

On June 15, 2007, the Company entered into a financial swap agreement with Sempra for a period of one year from January 1, 2008 through December 31, 2008. The agreement requires the Partnership to sell 4,500,000 MMBtu of gas during the year at a fixed price of $8.70 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

On March 3, 2008 the Company entered into another financial swap agreement with Sempra for a period of one year from January 1, 2009 through December 31, 2009. The agreement requires the

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Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

11. Natural Gas Swap Contracts (Continued)

Partnership to sell 2,100,000 MMBtu of gas during the year at a fixed price of $9.10 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

On June 9, 2008, the Company entered into another financial swap agreement with Sempra for a period of one year from January 1, 2010 through December 31, 2010. The agreement requires the Partnership to self 2,100,000 MMBtu of gas during the year at a fixed price of $9.91 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

These contracts are carried in the accompanying combined balance sheets at their fair value of $8,560,010 and $12,971,861 as of December 31, 2009 and 2008, respectively in derivative asset gas swap agreement, with changes in fair value recorded in current earnings in other income in the combined statements of operations.

12. Fair Value Disclosures

The Company adopted the provisions of FASB ASC 820, Fair Value Measurements and disclosures, effective January 1, 2008. FASB ASC 820 defines fair value, establishes a framework for measuring fair value under GAAP and enhances disclosures about fair value measurements.

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value, as required by Topic 820 of the FASB ASC, must maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following table summarizes the fair values of the Company's derivatives based on the inputs used as of December 31, 2009 and 2008 in determining such fair values:

Description	Fair Market Value on 12/31/2009	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Natural gas swaps	$ 8,560,010		8,560,010	
Interest rate swaps	$ (6,463,451)		(6,463,451)	
Restricted cash and cash equivalents	$ 35,777,376	35,777,376		
	$ 37,873,935	$ 35,777,376	$ 2,096,559	$

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2009 and 2008

12. Fair Value Disclosures (Continued)

Description	Fair Market Value on 12/31/2008	Quoted Prices in Active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Natural gas swaps	$ 12,971,861		12,971,861	
Interest rate swaps	$ (9,895,188)		(9,895,188)	
Restricted cash and cash equivalents	$ 43,788,715	43,788,715		
	$ 46,865,388	$ 43,788,715	$ 3,076,673	$

For derivatives for which fair value is determined based on multiple inputs, fair value accounting standards require that the measurement for an individual derivative to be categorized within a single level based on the lowest-level input that is significant to the fair value measurement in its entirety.

Fair value inputs for natural gas swaps in Level 2 are market prices. Fair value inputs for interest rate swaps in Level 2 are three month LIBOR future rates. Fair value inputs for restricted cash and cash equivalents in Level 1 are the Company's money market accounts.

The carrying amount of cash and cash equivalents approximate their fair value principally due to the short-term nature of these instruments. The fair value of the Company's long-term debt approximates the carrying amounts by virtue of the variable rate interest arrangements associated with the debt (See Note 6). The fair values of the interest rate swap contract and natural gas swap contracts equal the carrying value and were determined using the estimated amount the Company would receive to terminate the contracts. See Notes 10 and 11 for additional disclosure regarding the Company's accounting for its interest rate swap contract and natural gas swap contracts, respectively.

13. Ground Lease

The Company leases the land where the Facility is located from Sherwin under a 35-year term operating lease. The annual rent is $1 per year. The Company is required to pay all taxes, assessments, and fees on the leased property during the lease term. If the agreement is terminated prior to the 35-year term, the Company shall pay rent in equal monthly installments in an amount based on the market value of the unimproved land as determined at the time the agreement is terminated.

14. Commitments and Contingencies

There are commitments and contingencies arising from the ordinary course of business to which the Company is party. It is management's belief that the ultimate resolution of those commitments and contingencies will not have a material adverse impact on the Company's financial position or results of operations.

15. Subsequent Events

The Company has evaluated events subsequent to December 31, 2009 through April 9, 2010, the date the financial statements were available to be issued, and identified no events to be disclosed.

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Gregory Partners, LLC and Gregory Power Partners, L.P.

Combined Financial Statements

December 31, 2008 and 2007

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The combined financial statements of Gregory Partners, LLC, and Gregory Power Partners, L.P., for the years ended December 31, 2008 and 2007, are presented herein without the related report of independent accountants for the year ended December 31, 2008. The report of independent accountants is presented for the year ended December 31, 2007 pursuant to the requirements of Rule 3-09 of Regulation S-X.

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PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford CT 06901
Telephone (203) 539-3000
Facsimile (203) 207-3999

Report of Independent Auditors

To the Board of Managers of
Gregory Partners, LLC and
Gregory Power Partners, L.P.:

In our opinion, the accompanying combined balance sheet and the related combined statements of operations, of changes in partners' and members' capital and of cash flows present fairly, in all material respects, the combined financial position of Gregory Partners, LLC, and Gregory Power Partners, L.P., (the "Company") at December 31, 2007, and the combined results of their operations and their combined cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the combined financial statements, the Company has adopted a new method of accounting for planned major maintenance.

/s/ PricewaterhouseCoopers LLP

March 28, 2008

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 5,189,868	$ 9,548,140
Accounts receivable	9,641,457	22,001,856
Spare parts inventories	4,257,200	3,515,553
Prepaid expenses and other current assets	14,723,114	7,597,750
Total current assets	33,811,639	42,663,299
Property, plant and equipment, net	161,859,053	169,589,429
Other assets		
Restricted cash and cash equivalents	43,788,715	77,299,440
Deposits	500,000	500,000
Deferred financing costs, net	1,782,763	2,195,470
Total assets	$ 241,742,170	$ 292,247,638
Liabilities and Partners' and Members' Capital		
Accounts payable and accrued liabilities	$ 11,024,545	$ 12,309,057
Current portion of long-term debt	9,644,306	9,042,396
Total current liabilities	20,668,851	21,351,453
Derivative liability interest rate swap contract	9,895,188	4,902,579
Asset retirement obligation	1,926,091	1,733,479
Long-term debt	101,435,444	112,626,931
Total liabilities	133,925,574	140,614,442
Partners' and members' capital		
Contributed capital	30,330,329	30,330,329
Accumulated other comprehensive income (loss)	(9,895,188)	(4,902,579)
Retained earnings	87,381,455	126,205,446
Total partners' and members' capital	107,816,596	151,633,196
Total liabilities and partners' and members' capital	$ 241,742,170	$ 292,247,638

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Operations

Years Ended December 31, 2008 and 2007

	2008	2007
Revenues		
Electricity	$ 195,978,663	$ 158,248,249
Steam	133,090,568	107,778,817
Other	7,727,498	2,549,322
Total revenue	336,796,729	268,576,388
Operating expenses		
Fuel purchased	279,552,454	221,549,966
Operation and maintenance	20,705,193	15,396,854
Depreciation, amortization and accretion	9,114,384	9,133,264
General and administrative	5,833,513	5,660,521
Total operating expenses	315,205,544	251,740,605
Income from operations	21,591,185	16,835,783
Other income (expense)		
Interest income	1,173,676	4,150,787
Interest expense	(7,866,150)	(9,494,485)
Gain on derivative contract	7,529,777	6,398,161
Net Income	22,428,488	17,890,246
Other comprehensive income (loss)		
Change in the fair value in the interest rate swap contract	(4,992,609)	(1,852,692)
Comprehensive Income	$ 17,435,879	$ 16,037,554

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Changes in Partners' and Members' Capital

Years Ended December 31, 2008 and 2007

	Contributed Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, December 31, 2006	$ 30,330,329	$ (3,049,887)	$ 108,315,200	$ 135,595,642
Net income			17,890,246	17,890,246
Other comprehensive loss		(1,852,692)		(1,852,692)
Balance, December 31, 2007	30,330,329	(4,902,579)	126,205,446	151,633,196
Net income			22,428,488	22,428,488
Distributions			(61,252,479)	(61,252,479)
Other comprehensive loss		(4,992,609)		(4,992,609)
Balance, December 31, 2008	$ 30,330,329	$ (9,895,188)	$ 87,381,455	$ 107,816,596

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Combined Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net income	$ 22,428,488	$ 17,890,246
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	9,114,384	9,133,264
Net derivative activity	(7,529,777)	(6,398,161)
Changes in assets and liabilities		
Accounts receivable	12,360,399	2,150,649
Spare parts inventories	(741,647)	(1,193,244)
Prepaid expenses and other current assets	246,913	1,135,144
Accounts payable and accrued liabilities	(1,284,512)	810,009
Net cash provided by operating activities	34,594,248	23,527,907
Cash flows from investing activities		
Purchases of plant and equipment	(778,689)	(651,713)
Net change in assets restricted as to use	33,510,725	(22,671,989)
Cash flows from derivatives	157,500	10,312,500
Net cash (used in)/provided by investing activities	32,889,536	(13,011,202)
Cash flows from financing activities		
Payment of long-term debt	(10,589,577)	(8,516,674)
Distributions to partners	(61,252,479)	
Net cash used in financing activities	(71,842,056)	(8,516,674)
Net change in cash and cash equivalents	(4,358,272)	2,000,031
Cash and cash equivalents		
Beginning of the period	9,548,140	7,548,109
End of the period	$ 5,189,868	$ 9,548,140
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 7,854,148	$ 9,538,497

The accompanying notes are an integral part of the combined financial statements.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements

December 31, 2008 and 2007

1. Organization

Gregory Partners, LLC, and Gregory Power Partners, L.P. (collectively, the "Company," the "Partnership" or "Gregory") were organized on June 1, 1998, as a Delaware limited liability company and a Texas limited partnership, respectively, for the sole purpose of developing, financing, constructing, owning and operating a 500-megawatt (equivalent) cogeneration facility (the "Facility") at the Sherwin Alumina, L.P. (formerly Reynolds Metal Company) (BPU Reynolds, Inc.) plant near Gregory, Texas. The Facility commenced commercial operations on July 15, 2000. The Company operates as a Qualifying Facility ("QF") pursuant to the Public Utility Regulatory Policies Act ("PURPA"). The Partnership is operated pursuant to the Gregory Partnership Agreement dated June 1, 1998 (the "Partnership Agreement"). The operation and maintenance services are provided by subsidiaries of Babcock & Wilcox Company ("B&W"), an unaffiliated company.

Partnership interests are owned by subsidiaries of Javelin Holding, LLC ("Javelin Holding"), a wholly owned subsidiary of Javelin Energy, LLC ("Javelin Energy") and a subsidiary of DPC KY Energy LLC a wholly owned subsidiary of Delta Power Company, LLC ("Delta") called KY Energy, LLC. KY Energy, LLC holds a 4% limited partner interest in Gregory Partners, LLC and Gregory Power Partners, L.P. KY Energy, LLC also holds through its subsidiaries KY Energy Power Gregory #1, Inc. and KY Energy Power Gregory #2, Inc. a 1% general partner interest in Gregory Partners, LLC and Gregory Power Partners, LP. Subsidiaries of Javelin Energy hold a 94% limited partnership interest and a 1% general partnership interest. Javelin Energy is owned by the following four entities: (1) DPC Javelin Energy, LLC (2) John Hancock Variable Life Insurance Company; (3) Epsilon Power Funding, LLC; and (4) John Hancock Life Insurance Company.

Effective January 1, 2007, the membership interest in DPC Javelin Energy, LLC and DPC KY Energy, LLC were acquired by Arroyo DP Holdings, LP, an indirect wholly owned subsidiary of JP Morgan Chase & Co.

Under the terms of the Partnership Agreement, the Partnership's profits and losses are divided equally, based on ownership percentages, among the Gregory partners. No distributions were allowed to be made without lender consent through December 31, 2007.S tarting in 2008 all distributions are divided based on ownership percentages.

Javelin Gregory General Corporation and KY Energy Power Gregory #1, Inc. (the "general partners") are responsible for the management, operation and control of the business and affairs of the Partnership, except in certain matters requiring a vote by the limited partners. Each of the general partners designated two representatives ("Designated Representatives") to represent it for purposes of making management decisions regarding the business of the Partnership. Each such Designated Representative has the authority to act for and bind the designating general partner in the affairs of the Partnership. The general manager, appointed by the general partners, is responsible for conducting all aspects of the ordinary, day-to-day business affairs and operation of the Partnership in accordance with the business plan approved by the general partners.

Javelin Gregory Remington Corporation and KY Energy Power Gregory #2, Inc, (the "member managers") manage the business, property and affairs of Gregory Partners, LLC. Except for certain matters outlined in the Gregory Partners, LLC Operating Agreement, the member managers may make all decisions and take all actions for Gregory Partners, LLC. Each of the member managers designated two representatives to represent it for purposes of making management decisions regarding business

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

1. Organization (Continued)

matters. The general manager appointed by the member managers is responsible for conducting all aspects of the ordinary day-to-day and usual business affairs and operations of Gregory Partners, LLC in accordance with the business plan approved by the member managers.

The following chart shows the general partners and members managers designated by an asterisk (*) and the Limited Partners and Members of the Company as of December 31, 2008 and December 31, 2007:

		Gregory Partners, LLC	Gregory Power Partners, LP
Javelin Holding, LLC			
*	Javelin Gregory General Corporation		1%
	Gregory Holdings #1, LLC		94%
*	Javelin Gregory Remington Corporation	1%	
	Gregory Holdings #2, LLC	94%	
KY Energy, LLC			
*	KY Energy Power Gregory #1 Inc.		1%
	KY Energy, LLC		4%
*	KY Energy Power Gregory #2 Inc.	1%	
	KY Energy, LLC	4%	

2. Summary of Significant Accounting Policies

Basis of Presentation

The combined financial statements include the accounts of Gregory Partners, LLC, and Gregory Power Partners, L.P. All significant intercompany accounts and transactions have been eliminated upon combination. The combination results from the fact that the companies operate under common control and have significant financial interests in one another. The significant financial interests relate to the cross collateralization of the assets of the Company's debt agreement as described in Note 5.

Use of Estimates

The preparation of the Company's financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reporting periods for certain accruals. Actual results could differ from these estimates.

Cash Equivalents

The Company considers all highly liquid investments with a term to maturity of three months or less at the date of purchase to be cash equivalents.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Revenues are recorded based on power, steam, spray water, and ancillary services delivered to customers through period-end.

Included in 2007 revenues and net income is a $2.4 million charge relating to 2005 and 2006 billings to Constellation for ancillary services under the Power Purchase Agreement (Note 4). The Company and Constellation agreed to revise the rates for such services retroactive to 2005 as the PPA allows a 24-month true up for invoices. The Company refunded Constellation the amount in December 2007.

Spare Parts Inventory

Spare parts inventory of the Company is valued at the lower of cost or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method or machine-hours method. Property, plant and equipment accounts are relieved of the cost and related accumulated depreciation when assets are disposed of or otherwise retired.

Planned Major Maintenance Accounting

Effective with the commencement of the Facility's operations, the Company expensed major maintenance expense costs as incurred and depreciated major maintenance component capital costs over the useful lives of the components, rather than the lives of the assets in which they are installed.

Until recently, the AICPA Industry Audit Guide, *Audits of Airlines* ("Airline Guide") was the primary guidance for accounting for planned major maintenance in all industries. The accrue-in-advance methodology was an acceptable method based on the accounting guidance prior to the issuance of FSP AUG AIR-1. In September 2006, FASB issued FSP AUG AIR-1 (effective for fiscal years beginning after December 15, 2006), which prohibits the use of the accrue in-advance method of accounting for planned major maintenance. The Company has adopted this new pronouncement on January 1, 2007, and has changed its accrue-in-advance method to the direct method, recognizing all expenses related to the Long-Term Service Agreement ("LTSA") with General Electric International, Inc. when incurred. See more detail in Note 4. The impact on 2006 and prior years financial statements was not material.

Accounting for the Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred

Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

2. Summary of Significant Accounting Policies (Continued)

that indicate possible operational impairment. There was no impairment of long-lived assets at December 31, 2008 or 2007.

Deferred Financing Costs

The Company has deferred the finance costs associated with the development, construction and start-up of the Facility. The deferred financing costs are being amortized over the life of the loan using the loans outstanding method. In August 2005, the Company obtained a $5 million working capital letter of credit facility due to requirements for credit support under its Power Sales Agreement ("PSA"). The expiration of the facility at December 31, 2008 is coincident with the termination of the PSA (Note 4). The Company has deferred the finance costs associated with this credit facility. These costs are being amortized over the life of the PSA. Accumulated amortization was $4,320,402 and $3,907,695 at December 31, 2008 and 2007, respectively. Amortization expense was $412,707 and $438,438 in 2008 and 2007, respectively and was recorded in depreciation, amortization, and accretion expense on the accompanying combined statements of operations.

Restricted Cash and Cash Equivalents

The Company has established escrow accounts held by a trustee pursuant to the terms of the project financing arrangement as described in Note 5. These funds are held by trustees and are restricted as to payments for future maintenance on property and equipment, future operating costs and future principal and interest payments, subject to the terms of the project financing arrangement.

Derivative Instruments

The Company is required by its project financing arrangement to utilize interest rate swap contracts to reduce its exposure to adverse fluctuations in interest rates on its long-term debt. Such swaps are accounted for as cash flow hedge transactions, with related gains and losses being recorded in interest expense as realized and changes in the fair value are recorded in other comprehensive income (Note 6).

The Company has entered into several natural gas swap contracts. These contracts are carried in the Company's Balance Sheet at fair value, with changes in fair value recorded in current earnings in other income on the income statement.

The Company has certain commodity contracts for the physical delivery of purchase and sale quantities in the normal course of business. Since these activities qualify as normal purchase and normal sale activities, the Company has not recorded the value of the related contracts on the balance sheet as permitted under relevant accounting standards.

Accounting for Asset Retirement Obligations

The Company has recorded an asset retirement obligation under Statement of Financial Accounting Standard No. 143 ("SFAS 143"), *Accounting for Asset Retirement Obligations* and FIN 47, *Accounting for Conditional Asset Retirement Obligations.* Under these accounting methods, the Company recorded an asset of $829,112, representing the net present value of the Year 2030 asset retirement obligation utilizing a 10.0% risk free cost of capital and a liability of $1,023,595 for the asset retirement

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

2. Summary of Significant Accounting Policies (Continued)

obligation as of January 1, 2003. In addition, the Company will expense an amount equal to (a) the straight-line depreciation of the site dismantlement asset of $829,112 and (b) an amount equal to the annual increase in the site dismantlement liability, assuming a 2.5% annual inflation rate through the end of the lease term.

Accounting and Reporting Developments

In March 2008, the FASB issued SFAS No. 161 *Disclosures About Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* by requiring expanded disclosures about an entity's derivative instruments and hedging activities. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments. SFAS 161 is effective for the Company as of January 1, 2009. The adoption of SFAS 161 is not expected to have a material impact on the Company's financial statements.

3. Concentration of Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of cash and cash equivalents, accounts receivable, restricted cash and temporary investments. The Company maintains cash and cash equivalents with major financial institutions. Cash equivalents, restricted cash and temporary investments include investments in money market securities backed by the U.S. Government. At December 31, 2008 and 2007, substantially all of the deposits were in excess of the Federal Deposit Insurance Corporations Insured Limit of $250,000. The Company believes that no significant concentration of credit risk exists with respect to cash investments.

The Company has significant customers for 2008 and 2007, as follows:

	2008	2007
Sherwin Alumina, L.P.		
Percentage of combined total revenue	45%	45%
Percentage of combined accounts receivable	9%	5%
Constellation Energy Commodities Group, Inc.		
Percentage of combined total revenue	55%	53%
Percentage of combined accounts receivable	87%	94%
Tenaska Power Marketing, Inc.		
Percentage of combined total revenue	<1%	2%
Percentage of combined accounts receivable	4%	1%

Tenaska has provided security for their receivables in the form of a parent guaranty in the amount of $1.5 million as required by the contract.

During 2008 and 2007 the Company purchased about half of its gas from Kinder Morgan Tejas Pipeline, LLC. The remaining half of its gas during this period was delivered to the Company as payment for steam sales to Sherwin Alumina L.P.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

4. Contracts

The Company has entered into several contracts pertaining to revenues, costs of revenues, operations and marketing. The contracts are described as follows:

Power Purchase Agreements

Sherwin Alumina, L.P.

The Company and Reynolds Metals Company entered into an Energy Services Agreement ("ESA") for a term of 35 years effective June 30, 1998, and ending on the 35-year anniversary of the Commercial Operations Date, ("COD" as defined in the ESA as August 1, 2000). The ESA affords Reynolds the right to purchase a portion of the Company's steam and electricity production for a term ending on the 20-year anniversary of the COD, with a right to extend this term for up to three additional 5-year terms upon providing the Company with at least two years' notice prior to the expiration date. The remaining obligations of the contract remain in effect for the full 35 year term. On December 31, 2000, the ESA was assigned to and assumed by BPU Reynolds. On August 1, 2001, the ESA was assigned to and assumed by Sherwin Alumina, L.P. The provisions of the ESA allow Sherwin Alumina L.P. to provide natural gas in lieu of a cash payment as compensation for the steam they purchase for their production needs. The Partnership records the related steam revenue which is offset by an equivalent natural gas expense recorded in fuel purchased in the accompanying combined statements of operations.

Constellation Energy Commodities Group, Inc ("CCG")

The Company and CCG entered into a power sales agreement ("CCG PSA") as of August 29, 2005, whereby the Company agrees to sell and CCG agrees to purchase certain quantities of electricity capacity and energy, as well as Ancillary Service capabilities. The CCG PSA has a term of three years and four months from September 1, 2005, ending December 31, 2008.

The CCG PSA calls for a fixed capacity component and a variable energy component. However, not all of the Capacity Payment was realized as a cash receipt during 2006 and in January 2007. The CCG PSA includes a provision that requires the Company to provide a Required Additional Credit Support Amount under certain circumstances. Rather than increasing the security instrument provided to CCG PSA, the contract allows for Deferred Payment Obligations to be granted to Constellation to a maximum of $12,750,000. Accordingly, the Company has included $8,760,917 in accounts receivable in the current asset section of the accompanying balance sheet as of December 31, 2007. This represents the discounted value of $9 million contractual receivable using a discount rate of 5.0%. As of December 31, 2008, the entire balance of the receivable has been collected.

The Company is subject to operational and contractual risks associated with the Constellation PPA. Risks include, but are not limited to, output capacity and availability and heat rate guarantees. Management has taken steps to manage physical and contractual risks; however, such risks cannot be eliminated.

Fortis Energy Marketing & Trading GP ("Fortis")

The Company and Fortis entered into a power sales agreement ("Fortis PSA") as of July 23, 2007, whereby the Company agrees to sell and Fortis agrees to purchase certain quantities of electricity

Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

4. Contracts (Continued)

capacity and energy, as well as Ancillary Service capabilities. The Fortis PSA has a term of five years from January 1, 2009.

The Fortis PSA calls for a fixed capacity component and a variable energy component. The Fortis PSA includes a provision that requires the Company to provide Credit Support which was delivered to Fortis by the Company in July 2007 in the form of a letter of credit for $10 million. The letter of credit expired on July 23, 2008 and was replaced by a cash deposit provided by the Company's partners.

The Company is subject to operational and contractual risks associated with the Fortis PPA. Risks include, but are not limited to, output capacity and availability. Management has taken steps to manage physical and contractual risks; however, such risks cannot be eliminated.

Energy Management Agreements

Tenaska Power Services Co. ("TPS")

On December 6, 2006, the Company and TPS entered into an EMA whereby TPS is to provide energy management services for the Facility by acting as the Company's qualified scheduling entity with ERCOT and marketing the excess power (~5 to 55 MWhs) from the Facility generated above the volumes committed to CCG. The agreement primary term expires on December 31, 2008. The agreement will automatically renew for successive one year terms unless terminated by either party by giving a written notice to the other party. No termination notice was produced by either party in 2008. The Company provided TPS a cash deposit in lieu of an irrevocable LOC in the amount of $500,000 which is included in deposits in the accompanying combined balance sheets.

Gas Purchase and Transportation Agreements

Kinder Morgan

Coral Energy Resources, L.P., Coral Energy, L.P. (together, "Coral") and the Company entered into an Amended and Restated Gas Sales Agreement (the "GSA"), as of November 20, 1998, whereby Coral agrees to sell, at an agreed upon price, to the Company up to 62,000 MMBtu per day of natural gas, the Facility's estimated maximum daily fuel requirement (net of gas supplied by Reynolds). On February 28, 2002, the GSA was assigned to and assumed by Kinder Morgan Tejas Gas Pipeline, which underwent a name change to Kinder Morgan Tejas Pipeline, LLC ("Kinder Morgan"). The Company has no obligation to purchase any gas under the GSA beyond the first two contract years.

The GSA has a primary term of ten years from the Commercial Operations Date (as defined in the ESA as August 1, 2000). The GSA includes a provision that requires the Company to provide additional credit support under certain circumstances.

Tejas Gas Pipeline L.P.

Tejas Gas Pipeline L.P., ("Tejas") and the Company entered into an Amended and Restated Intrastate Gas Transportation Agreement (the "Intrastate Agreement"), as of November 20, 1998, whereby Tejas agrees to provide firm transportation for the Facility of up to 62,000 MMBtu per day of gas.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

4. Contracts (Continued)

The Intrastate Agreement has a primary term of ten years from the Commercial Operations Date (as defined in the ESA as August 1, 2000), but the Company may terminate the Intrastate Agreement at the end of the fifth contract year upon at least 60 days notice to Tejas.

Constellation NewEnergy, Inc. ("CNE")

On April 27, 2006, the Company and CNE entered into a one year Master Retail Power Sales Agreement, whereby CNE agreed to supply full requirements for electric energy, including standby electricity and provide any additional energy and services as the Company may require in the event it is required to import electricity to support it and/or its steam hosts production requirements. The price of the electricity is the Market Clearing Price of Electricity ("MCPE") plus $0.50, with a monthly fee of $3,000. On April 23, 2007, the agreement was extended until April 26, 2008. On February 6, 2008, the agreement was modified to change the term from one year to three years ending on April 26, 2009.

San Patricio Municipal Water District

The Company and the San Patricio Municipal Water District ("SPMWD") entered into a Raw Water Contract (the "RWC") as of September 15, 1998, that provides, in part, that SPMWD will sell and deliver up to 2 million gallons of water per day to the Company. The initial term of the RWC is 20 years. Monthly billings for water sold to the Company are based on rates set annually to recover SPMWD's cost of service. Under the terms of the RWC, SPMWD will reserve specified capacity in its facilities to deliver water to the Facility.

General Electric International, Inc.

The Company and General Electric International, Inc. ("GE") entered into a Long-Term Service Agreement ("LTSA") as of September 30, 2001, whereby GE agrees to fund future planned maintenance and certain additional maintenance with respect to the two gas turbines at the Facility, including the combustion and turbine sections of the covered units and their Mark V control system. The initial term of the contract is the earlier of the time when covered units experience their second major inspection, as described under the contract or 17 years from the effective date of the contract. The contract was amended as of March 31, 2006 to extend the term of coverage until each covered unit reaches the later of 120,000 factored fired hours of operation or completion of the first hot path inspection after the second major inspection as defined in the contract.

5. Long-Term Debt

The Company has a 17 year loan, expiring September 30, 2017 with ING Capital, LLC that provides for quarterly principal payments and interest at LIBOR plus 1.375% during 2007 and through October 2, 2008. On October 2, 2008 the interest rate changed to LIBOR plus 1.5%.

Borrowings are obligations solely of the Company and the lender's collateral is substantially all of the assets of the Company. The lenders have no contractual recourse to the partners. The loan agreement contains various affirmative and negative covenants involving the operation of the Facility, compliance with laws, and incurrence of additional debt and restricted payments.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

5. Long-Term Debt (Continued)

The most restrictive covenants under the term loan are as follows:

(1) The Company must give prompt notice to ING Capital, LLC of any contractual obligations incurred by the Company exceeding $250,000 per year.

(2) The Company must give prompt notice to ING Capital, LLC of any potential litigation that may exceed $250,000.

Scheduled maturities of the long-term debt are as follows:

2009	$	9,644,306
2010		10,162,817
2011		10,992,434
2012		11,822,052
2013		12,755,372
After 2013		55,702,769
		111,079,750
Less: Current portion		(9,644,306)
	$	101,435,444

In November 2008 the Company provided a notice letter to ING Capital, LLC advising that it is in a state of default under the Credit Agreement. The default situation was the result of the expiration of the Texas state authorization in March, 2008 for its Prevention of Signification Deterioration ("PSD") Air Permit. The Company signed an Agreed Order with the Texas Commission of Environmental Quality ("TCEQ") on March 24, 2009 which gives it the state's authority to operate under the terms of the PSD Air Permit. The Company concurrently provided notice to ING Capital, LLC that the Default situation has been cured.

6. Interest Rate Swap Contract

To protect the project lenders from the uncertainty of interest rate changes during the term of the loan, the Company was required by the project financing agreement to fix or hedge fifty percent (50%) of the original balance of the term loan by entering into an interest rate swap contract. The agreement with ING Capital LLC, dated November 23, 1998, requires the Company to make fixed interest payments at a rate of 5.95% for the term of the loan and will receive interest at a variable rate equal to the rate on the debt hedged. The contract has a notional amount of approximately half of the outstanding principle balance of the loan. The interest rate swap contract matures at the time the related debt matures. As of December 31, 2008 and 2007, the Company had recorded cumulative losses of $9,895,188 and $4,902,579, respectively, in other comprehensive income. Upon termination of the loan and swap contract any amount recorded in other comprehensive income will be reclassified into earnings.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

7. Natural Gas Swap Contracts

On July 31, 2006, the Company entered into a financial swap agreement with Sempra for a period of one year from January 1, 2007 through December 31, 2007. The agreement requires the Partnership to sell 4,500,000 MMBtu of gas during the year at a fixed price of $8.8725 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

On June 15, 2007, the Company entered into another financial swap agreement with Sempra for a period of one year from January 1, 2008 through December 31, 2008. The agreement requires the Partnership to sell 4,500,000 MMBtu of gas during the year at a fixed price of $8.70 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

On March 3, 2008 the Company entered into another financial swap agreement with Sempra for a period of one year from January 1, 2009 through December 31, 2009. The agreement requires the Partnership to sell 2,100,000 MMBtu of gas during the year at a fixed price of $9.10 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

On June 9, 2008, the Company entered into another financial swap agreement with Sempra for a period of one year from January 1, 2010 through December 31, 2010. The agreement requires the Partnership to sell 2,100,000 MMBtu of gas during the year at a fixed price of $9.91 per MMBtu. The agreement also includes a coincident gas purchase contract to purchase a like amount of gas at a Houston Ship Channel/Beaumont, Texas price index through the same period.

These contracts are carried in the accompanying combined balance sheets at their fair value of $12,971,861 and $5,599,584 as of December 31, 2008 and 2007, respectively in prepaid expense and other current assets, with changes in fair value recorded in current earnings in other income in the combined statements of operations.

8. Fair Value Disclosures

In September 2006, the FASB issued SFAS 157, which provides a single definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Prior to SFAS 157, guidance for applying fair value was incorporated into several accounting pronouncements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy that distinguishes between assumptions based on market data obtained from independent sources (observable inputs) and those based on an entity's own assumptions (unobservable inputs). Under SFAS 157, fair value measurements are disclosed by level within that hierarchy, with the highest priority being quoted prices in active markets. The Company adopted SFAS 157 on January 1, 2008.

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

8. Fair Value Disclosures (Continued)

The following table summarizes the fair values of the Company's derivatives based on the inputs used as of December 31, 2008 in determining such fair values:

Description	Fair Market Value on December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Natural gas swaps	$ 12,971,861	$	$ 12,971,861	$
Interest rate swaps	(9,895,188)		(9,895,188)	
	$ 3,076,673	$	$ 3,076,673	$

In February 2007 the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS 159 permits entities to elect to measure financial assets and liabilities (except for those that are specifically scoped out of the Statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between the carrying value and the fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The Company adopted SFAS 159 effective January 1, 2008 with no material impact on the financial statements.

The carrying amount of cash and cash equivalents approximate their fair value principally due to the short-term nature of these instruments. The fair value of the Company's long-term debt approximates the carrying amounts by virtue of the variable rate interest arrangements associated with the debt. The fair values of the interest rate swap contract and natural gas swap contracts equal the carrying value and were determined using the estimated amount the Company would receive to terminate the contracts. See Notes 6 and 7 for additional disclosure regarding the Company's accounting for its interest rate swap contract and natural gas swap contracts, respectively.

9. Property, Plant and Equipment

Plant and equipment consist of the following at December 31, 2008 and 2007, respectively:

	Useful Lives (Years)	2008	2007
Plant and related equipment	5 - 30	$ 246,498,709	$ 245,872,627
Office and transportation equipment	3 - 10	1,168,525	1,015,917
		247,667,234	246,888,544
Less: Accumulated depreciation		85,808,181	77,299,115
Net plant and equipment		$ 161,859,053	$ 169,589,429

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Gregory Partners, LLC, and Gregory Power Partners, L.P.

Notes to Combined Financial Statements (Continued)

December 31, 2008 and 2007

10. Ground Lease

The Company leases the land where the Facility is located from the BPU Reynolds under an operating lease for a 35-year term. The annual rent is $1 per year. The Company is required to pay all taxes, assessments, and fees on the leased property during the lease term. If the agreement is terminated prior to the 35-year term, the Company shall pay rent in equal monthly installments in an amount based on the market value of the unimproved land as determined at the time the agreement is terminated.

11. Related Party Transactions

Delta Power Company, LLC ("DPC")

The Company entered into an agreement as of January 1, 2001, whereby it reimburses DPC for salaries and benefits for the General Manager and staff that are assigned to the Company. Payments to DPC for salaries and benefits totaled $497,215 and $548,508 for the years ended December 31, 2008 and 2007, respectively and are included in general and administrative expense in the combined statements of operations. At December 31, 2008 and 2007, respectively, $138,978 and $97,249 were payable to DPC which was included in accounts payable and accrued expenses in the accompanying combined balance sheets. On May 1, 2007, JP Morgan Chase & Co. began providing accounting services for the Company.

12. Income Taxes

The Company is exempt from federal and state income taxes. Taxable income or loss from the Company is reportable by the partners and members on their respective income tax returns. Accordingly, there is no recognition of income taxes in the combined financial statements. Beginning in 2007, the Company is subject to a franchise tax in the state of Texas, and has recorded an amount representing the obligation in accordance with the State of Texas franchise tax.

13. Commitments and Contingencies

There are commitments and contingencies arising from the ordinary course of business to which the Company is party. It is management's belief that the ultimate resolution of those commitments and contingencies will not have a material adverse impact on the Company's financial position or results of operations.

14. Subsequent Events

On January 7, 2009 the Company entered into an agreement with Koch Supply & Trading, LP ("Koch") for the Company to sell 500 tons of 2009 CAIR Annual NOx Allowances at $5,000 per ton. The $2.5 million payment from Koch was received on February 6, 2009.

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PASCO COGEN, LTD.
Financial Statements
December 31, 2007
(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Partners
Pasco Cogen, Ltd.:

We have audited the accompanying balance sheet of Pasco Cogen, Ltd. as of December 31, 2007, and the related statement of operations and partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pasco Cogen, Ltd. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

March 7, 2008
Tampa, Florida
Certified Public Accountants

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PASCO COGEN, LTD.

Statement of Operations and Partners' Capital

Year ended December 31, 2007

Operating revenues	$	57,331,633
Operating costs and expenses:		
Fuel expenses		22,111,732
Operating expenses		7,277,438
Depreciation and amortization		3,855,847
Total operating expenses		33,245,017
Income from operations		24,086,616
Other income (expense):		
Other income		299,415
Interest expense		(1,741,368)
Interest income		943,474
Other expense, net		(498,479)
Net income		23,588,137
Partners' capital, beginning of year		52,490,036
Partnership distributions		(18,395,423)
Partners' capital, end of year	$	57,682,750

See accompanying notes to financial statements.

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PASCO COGEN, LTD.

Balance Sheet

December 31, 2007

Assets		
Current assets:		
Cash and cash equivalents	$	3,549,810
Accounts receivable		5,223,629
Prepaid expenses		458,015
Materials and supplies		1,704,661
Restricted investments, current portion		7,500,000
Total current assets		18,436,115
Restricted investments, net of current portion		5,365,678
Property, plant, and equipment, net		48,024,584
Other assets, net		708,187
Total assets	$	72,534,564
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable and accrued expenses	$	2,813,814
Current installment of notes payable		12,038,000
Total current liabilities		14,851,814
Partners' capital		57,682,750
Total liabilities and partners' capital	$	72,534,564

See accompanying notes to financial statements.

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PASCO COGEN, LTD.

Statement of Cash Flows

Year ended December 31, 2007

Cash flows from operating activities:		
Net income	$	23,588,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		3,082,056
Amortization		773,791
Changes in operating assets and liabilities:		
Accounts receivable		(589,068)
Prepaid expenses		(66,965)
Materials and supplies		(95,544)
Accounts payable and accrued expenses		55,446
Accrued maintenance		(322,560)
Net cash provided by operating activities		26,425,293
Cash from investing activities:		
Change in restricted investments		4,203,563
Purchases of property, plant, and equipment		(698,041)
Net cash provided by investing activities		3,505,522
Cash flows from financing activities:		
Principal payments of notes payable		(11,574,998)
Partnership distributions		(18,395,423)
Net cash used in financing activities		(29,970,421)
Net decrease in cash and cash equivalents		(39,606)
Cash and cash equivalents, at beginning of year		3,589,416
Cash and cash equivalents, at end of year	$	3,549,810
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	1,741,368

See accompanying notes to financial statements.

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PASCO COGEN, LTD.

Notes to Financial Statements

December 31, 2007

(1) Organizational History and Ownership

Pasco Cogen Ltd. (the Partnership) is a limited partnership formed during 1991 to develop and operate a 109-megawatt gas and oil fired cogeneration facility in Dade City, Florida, which was placed into commercial service on July 1, 1993. The term of the Partnership will continue until December 31, 2015, which can be shortened or extended in accordance with the Limited Partnership Agreement. The Partnership is a qualifying facility under the Public Utility Regulatory Policies Act of 1978 (PURPA) which entitles it to certain energy sales and purchase benefits as long as certain ownership and operating standards are maintained.

The facility's electricity is sold to Progress Energy Florida (PEF), and its steam was sold to the Pasco Beverage Company (PBC) and other steam users until March 2005 when PBC and the other steam users ceased steam purchases. Prior to the cessation of steam sales, the Partnership completed the installation of a water distillation system. Steam is used to manufacture distilled water, which is sold to an unaffiliated third party, ensuring compliance with the qualifying facility requirements set by the Public Utility Regulatory Policies Act of 1978.

Each partner shares in operating income or loss of the Partnership on a basis proportionate to the partners' respective ownership percentage. Effective December 24, 2007, NCP Dade Power, LLC (NCP) and Dade Investment, L.P. acquired all but 0.2% of the remaining interest in the Partnership and the ownership allocation among the partners was adjusted accordingly.

At December 31, 2007, the respective partnership ownership percentages are as follows:

General Partner:	
NCP Dade Power, LLC	2.0%
Limited Partners:	
DCC Project Finance Ten, Inc.	0.2%
Dade Investment, L.P.	97.8%

The limited partners do not participate in management control of the Partnership and are limited to voting on certain matters described in the Limited Partnership Agreement. Except as otherwise required by law, each limited partners' liability for any debts, liabilities, contracts, or obligations of the Partnership is limited to its capital contribution and its share of any undistributed assets of the Partnership. No partner shall be required to make any additional capital contributions unless approved by the general partner.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of the financial statements requires management of the Partnership to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount and useful lives of property, plant, and equipment. Actual results could differ from those estimates.

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PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(2) Summary of Significant Accounting Policies (Continued)

(b) Income Taxes

The partners are required to report their share of the Partnership's net income or loss on their respective tax returns. Accordingly, no provision for income tax is reflected in the accompanying financial statements.

(c) Concentration of Credit Risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of cash and cash equivalents, restricted investments, and accounts receivable. As of December 31, 2007, substantially all of the Partnership's cash and restricted investment balances were deposited with one financial institution assessed by management as being of high quality.

One customer, PEF, accounts for approximately 97% of the Partnership's revenue for the year ended December 31, 2007, and for approximately 93% of the accounts receivable (100% of the trade accounts receivable) as of December 31, 2007. The Partnership does not collateralize its accounts receivable.

One vendor supplied approximately 100% of the Partnership's gas purchases in 2007 and accounted for approximately 88% of the accounts payable as of December 31, 2007.

(d) Cash and Cash Equivalents

The Partnership considers all short-term highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(e) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Due to the limited number of customers and invoices, the Partnership determines the need for an allowance, if any, based on specific facts and circumstances. No such allowance was deemed necessary as of December 31, 2007.

(f) Materials and Supplies

Materials and supplies inventory consists of plant equipment components and recurring maintenance supplies required to be maintained in order to facilitate routine maintenance activities. Materials and supplies inventory is recorded at the lower of cost or market.

(g) Derivative Instruments and Hedging Activities

The Partnership accounts for derivative instruments and hedging activities in accordance with Statements of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, as amended, requires the fair value of derivative instruments to be recorded on the balance sheet as an asset or liability. Changes in the fair value of derivative financial instruments are either recognized periodically in income or partners' capital depending on whether the derivative is being used to hedge changes in fair value or cash flow. The Partnership identifies, and routinely analyzes various financial instruments and contracts. The Partnership had no

PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(2) Summary of Significant Accounting Policies (Continued)

derivative instruments as of and during the year ended December 31, 2007. The Financial Accounting Standards Board (FASB) continues to issue guidance that could affect the Partnership's application of SFAS No. 133 and require adjustments to the amounts and disclosures in the financial statements.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at historical cost. Depreciation expense is provided on the straight-line method over the lesser of the useful lives of the asset or the lease term. The estimated useful lives of the plant and machinery are 30 years and 5 to 10 years, respectively. Leasehold improvements to the land site are amortized over the land lease commitment of 20 years.

(i) Restricted Investments

Restricted investments represent amounts set aside under the terms of the Disbursement Agreement (as amended and restated) and the Master Agreement (as amended and restated) between the Partnership and bank lenders, agent, and collateral agent (together, the Agreement) for future debt service, significant scheduled maintenance requirements, and distributions to partners pursuant to Section 3.5(e)(ii) of the Agreement. The three restricted accounts at December 31, 2007 are the Capital Expenditure Reserve Fund account, funded with $1,484,277; the Debt Service Reserve account, funded with $7,500,000; and the Special Reserve Account, funded with $3,881,401. All funds are held in highly rated money-market accounts, as determined by management, which approximates fair value at December 31, 2007.

(j) Revenue Recognition

Revenues from the sale of electricity consist of capacity payments and sale of energy to a single customer. Revenues are recorded at the time of billings and are based upon output delivered and capacity provided at rates specified under the contractual terms. Revenues for distilled water sales are recognized upon delivery.

Billings for electricity and distilled water sales are rendered monthly.

(k) Deferred Financing Costs

Financing costs, consisting primarily of commitment fees paid to the lenders, as well as legal fees and other direct costs incurred to obtain financing for the Partnership, are deferred and amortized over the term of the related loan. For the year ended December 31, 2007, amortization expense related to the deferred financing costs was approximately $317,000 per year.

(l) Asset Impairment

The Partnership accounts for its long-lived assets in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 addresses accounting and reporting for the impairment or disposal of long-lived assets. An impairment loss is recognized if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and fair value of the asset. The Partnership periodically

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PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(2) Summary of Significant Accounting Policies (Continued)

assesses whether there has been an impairment of its long-lived assets, held and used by the Partnership in accordance with SFAS 144. There were no impairment losses in 2007.

(m) Accrued Maintenance

Effective January 1, 2007, the Partnership adopted FASB Staff Position No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. Upon adoption, the Partnership no longer accrues and expenses estimated major maintenance in advance, rather major maintenance items are expensed as incurred.

(n) Asset Retirement Obligations

On January 1, 2003, the Partnership adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement requires companies to record a liability relating to legal obligations to retire and remove assets used in their business. On January 1, 2005, the Partnership adopted FIN No. 47, *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143. FIN No. 47 clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143. The adoption of SFAS No. 143 and FIN No. 47 did not have a material impact on the Partnership's financial position, results of operations, or cash flows as of and for the year ended December 31, 2007.

(3) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at December 31, 2007:

Land and leasehold improvements	$	520,787
Machinery and equipment		184,979
Cogeneration plant		83,053,582
Accumulated depreciation		(35,734,764)
	$	48,024,584

Total depreciation expense for the year ended December 31, 2007 was approximately $3,082,000.

(4) Other Assets

Other assets consist of the following at December 31, 2007:		
Financing costs	$	5,760,063
Development costs		5,999,779
Accumulated amortization on financing and development costs		(11,085,155)
Utility deposit		33,500
	$	708,187

Development costs incurred during construction are amortized over the remaining terms of the sales contracts with PEF on a straight-line method, expiring on December 31, 2008. Financing costs are

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PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(4) Other Assets (Continued)

amortized over the respective loan period. Total amortization expense was approximately $774,000 for the year ended December 31, 2007.

(5) Notes Payable

Long-term debt consists of the following at December 31, 2007:

Note payable to insurance company, 9.125%, interest due quarterly, with quarterly principal payments through December 31, 2008, secured by all of the Company's assets	$	10,990,836
Note payable to bank, interest due quarterly at LIBOR plus 1.50% (6.69% at December 31, 2007); with quarterly principal payments through December 31, 2008; secured by all of the Company's assets		1,047,164
		12,038,000
Less current installments of notes payable		(12,038,000)
	$	

In compliance with the terms of the Agreement, the Partnership has established a reserve to fund future debt service. Through December 31, 2006, the debt service reserve was $12,000,000. During 2007, the Partnership obtained a waiver from the lender allowing a reduction to $7,500,000 at December 31, 2007.

The Master Agreement contains various positive and negative covenants. As of December 31, 2007, the Partnership was in compliance with its loan covenants and had obtained a waiver associated with insurance deductible requirements from the lenders.

The Partnership has a renewable letter of credit in favor of PEF issued by a financial institution in the amount of $4,350,000 expiring effective January 1, 2009. This letter of credit is required by the power sales contract with PEF as a guaranty of the Partnership's commitment to sell electricity. The financial institution is committed through December 31, 2008 to issue a letter of credit in an amount up to $4.5 million, and a $^{3}/_{8}$ of 1% annual commitment fee is charged on the unutilized portion.

(6) Related Parties

Peaking gas supply and gas management services are provided by TECO Gas Services (TGS), a wholly owned subsidiary of TECO, which, until the December 24, 2007 sale transaction, indirectly owned the Pasco Project Investment Partnership, Ltd. (PPIP) partnership interest in the Partnership. The gas is transported by Florida Gas Transmission Company and Peoples Gas System Inc. (PGS).

The Partnership incurs fixed annual fees for administrative operating management functions payable to PPIP and NCP totaling approximately $465,000 in 2007. The total fees were split evenly between PPIP and NCP. Effective December 24, 2007, all of the fixed annual fees are paid to NCP. Related-party (income) expenses for gas sales and transportation for the year ended December 31, 2007 totaled approximately $(896,000) and $2,027,000 from TGS and PGS, respectively. Approximately $112,000 of accounts payables at December 31, 2007, were due to PGS. In addition, approximately $148,000 of accounts receivable at December 31, 2007, were due from PGS for imbalance book out gas.

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PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(6) Related Parties (Continued)

Teton Operating Services (Teton OS) became the contractual operator of the facility beginning March 12, 2004, succeeding Aquila Generation Services. Teton OS is an affiliate of Teton East Coast Generation, Inc., which owns the NCP Dade Power, LLC and Dade Investment, LP partnership interest in the Partnership. For the year ended December 31, 2007, the Partnership incurred operation and maintenance costs to Teton OS of approximately $3,891,000. Approximately, $467,000 of accounts payable was due to Teton OS as of December 31, 2007.

During 2004, the Partnership's affiliates formed Pasco Cogen Realty, L.P. (Realty). On December 30, 2004, Realty purchased the land where the Partnership's facility is located, which was previously leased to the Partnership by PBC. PBC assigned the site lease to Realty, which will continue leasing the land to the Partnership for the remainder of the lease term. The annual amount of these site lease payments are approximately $20,100 through the term of the lease expiring July 31, 2013.

(7) Commitments and Contingencies

(a) Leases

The Partnership has noncancelable operating leases on land and other equipment. Total rent expense for the year ended December 31, 2007 was approximately $442,000.

Aggregate minimum annual rental commitments under noncancelable operating leases as of December 31, 2007 are as follows:

2008	$	471,814
2009		471,814
2010		471,814
2011		358,886
2012		20,100
Thereafter		11,725
	$	1,806,153

(b) Contingencies

The Partnership is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, results of operations, or liquidity of the Partnership.

(8) Power Purchase Agreement

The Partnership sells all of the net electrical output of the facility to PEF pursuant to a $15^1/_2$ year Power Purchase Agreement (PPA) that commenced in July 1993. The PPA was restructured in October 1996, reducing the term (from 20 years to the $15^1/_2$ year term currently in effect) and providing for a special monthly payment through 2005. Revenue under the PPA is based on a payment for capacity, an energy payment, and an hourly performance adjustment for on-peak hours. Capacity payments have been contracted and range from $26.79/kW month in 2006 to $29.46/kW month in 2008. The capacity payment is subject to the Partnership maintaining an on-peak capacity during on-peak hours on a

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PASCO COGEN, LTD.

Notes to Financial Statements (Continued)

December 31, 2007

(8) Power Purchase Agreement (Continued)

12-month rolling average basis. The energy payment component of the PPA comprises a fuel component and a voltage adjustment for each kWh of electricity produced. The performance adjustment is an hourly calculation based upon PEF's avoided cost of all electricity provided to the system during that hour. For the year ended December 31, 2007, the Partnership has recorded electricity revenue of approximately $57,321,000 under the PPA.

On August 14, 2007, the Partnership entered into a tolling agreement with Tampa Electric Company (TEC), a business unit of TECO Energy, Inc. (TECO). The term of the tolling agreement is from January 1, 2009 through December 31, 2018. Under the agreement, the Partnership will provide capacity and fuel conversion services.

(9) Fuel Agreements

PPM provides the Partnership with up to 20,472 MMBtu's of natural gas per day pursuant to a 15-year gas purchase agreement commencing in July 1993. The base purchase price under the agreement is adjusted monthly based on PEF's coal costs and capacity rates under the PPA between the Partnership and PEF.