Our Experience in Investor-Owned Utility Securitization, Ratepayer-Backed Bonds: 19 years, Multiple Engagements; Same Personnel Have Advised 6 Commissions, 13 Transactions, $9.02 Billion in Bonds involving 8 utilities, 25+ Underwriters

<table>
<thead>
<tr>
<th>Size of Offering $ Millions</th>
<th>Saber Partners’ Role Involving State Utility Regulatory Agencies, Ratepayers and Securitization</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Financial Advisor to Chairman of New York State Public Service Commission</td>
</tr>
<tr>
<td>$748.9</td>
<td>Financial Advisor to Public Utility Commission (PUC) Texas</td>
</tr>
<tr>
<td>$797.3</td>
<td>Financial Advisor to Public Utility Commission Texas</td>
</tr>
<tr>
<td>$500.0</td>
<td>Financial Advisor to Public Utility Commission Texas</td>
</tr>
<tr>
<td>$798.8</td>
<td>Financial Advisor to Public Utility Commission Texas</td>
</tr>
<tr>
<td>N/A</td>
<td>Financial Advisor to Vermont Public Service Board (Purchasing Agent, VEPP, Inc.)</td>
</tr>
<tr>
<td>N/A</td>
<td>Financial Advisor to Wisconsin Public Service Commission (PSC)</td>
</tr>
<tr>
<td>$1,027.2</td>
<td>Financial Advisor to New Jersey Board of Public Utilities</td>
</tr>
<tr>
<td>$1,851.0</td>
<td>Financial Advisor to Public Utility Commission Texas</td>
</tr>
<tr>
<td>$1,739.7</td>
<td>Financial Advisor to Public Utility Commission Texas</td>
</tr>
<tr>
<td>$344.5</td>
<td>Financial Advisor to Public Service Commission of West Virginia</td>
</tr>
<tr>
<td>$114.8</td>
<td>Financial Advisor to Public Service Commission of West Virginia</td>
</tr>
<tr>
<td>$652.0</td>
<td>Financial Advisor to Florida Public Service Commission</td>
</tr>
<tr>
<td>$64.4</td>
<td>Financial Advisor to Public Service Commission of West Virginia</td>
</tr>
<tr>
<td>$21.5</td>
<td>Financial Advisor to Public Service Commission of West Virginia</td>
</tr>
<tr>
<td>$375</td>
<td>Financial Advisor to the Office of the People’s Counsel (i.e., Ratepayer Advocate) of the District of Columbia Public Service Commission</td>
</tr>
<tr>
<td>$1,294.0</td>
<td>Financial Advisor to Florida Public Service Commission</td>
</tr>
<tr>
<td>Financial Advisor to California Community Choice Association for financial analysis and testimony before the California Public Utilities Commission Rulemaking (CPUC)17-06-026 Proceeding</td>
<td></td>
</tr>
<tr>
<td>National Regulatory Research Institute (NRRRI) Fellow (Joseph S. Fichera) and author of securitization NRRRI “Insights” article January, 2019</td>
<td></td>
</tr>
<tr>
<td>Advisor to HEAL Utah (Healthy Environment Alliance) securitization legislation proposal</td>
<td></td>
</tr>
<tr>
<td>$9,020 Billion</td>
<td>Advisor to North Carolina Utilities Commission Public Helpful on storm securitization</td>
</tr>
</tbody>
</table>
Sources of Utility Securitization Ratepayer NPV Savings

- **No Income Taxes On Required Revenues** 33%
- **Level Revenue Requirements Over 25 years** 9%
- **Lower Revenue Based Fees** 1%
- **Eliminate Utility Equity Costs** 55%
- **Lower Interest Expense** 2%

(*) Savings net of issuance costs. 15-Year Weighted Average Life of Bond

---

Sources of Utility Securitization Ratepayer NPV Savings

Traditional Utility Financing:
(50% Debt + 50% Equity) Needs This Much Revenue From Electricity Sales Each Year for Declining Balance Amortization 25-Year Asset

- Revenues Required for Cost of Level Payment of Principal and Interest of Securitization Debt

---

© Saber Partners, LLC

NASUCA Annual Meeting
November 8, 2020
Joseph S. Fichera
212-461-2370
WHY SECURITIZATION?

A “financing tool” to recover unique and significant costs in a way that is beneficial to both the utility and ratepayers.

Utility Securitization in a Nutshell

- Replaces utility’s overall pre-tax cost of capital with a AAA bond rate
- Mostly lower level annual revenue requirements versus higher traditional declining annual revenue requirements
- Bonds paid by ratepayers through a new nonbypassable and dedicated charge on electricity consumption
- The right to the dedicated charge is sold to a new special purpose entity to secure its bonds issued to investors
- PSC mandated always to adjust the charge to guarantee bonds paid on time. State promises never to interfere!
Some states more active than others

66 Investor-Owned Utility Transactions

Investor-Owned Utility Securitizations

$50.8 Billion Issued-$4.4 Billion Remain
1997-Present

TOTAL $ Amount Outstanding End of Year

Amount Issued In Year

Note: Excludes MPC Natural Gas Funding Trust 1998-1 and Sierra Pacific Power 1999 due to no prospectus, and Utility Debt Securitization Authority (LIPA) 2013 and Dept. of Business, Econ Dev., & Tourism (Hawaii) 2014 which were muni deals.

As of 12/31/2020
$4.4 Billion
Eight Primary Uses Over Time 1997 – Present Only After Costs Determined Prudent and Recoverable

1. 1997 Rate reduction to facilitate deregulation of energy market
2. 1998-2007 Recovery of stranded costs resulting from electric industry deregulation
3. 2000 Buydown of above market power purchase agreements
4. 2001-2006 Deferred balances and regulatory assets
5. 2004-2007 Costs of new pollution control equipment
6. 2005 Storm recovery costs
7. 2013 Costs of new renewable distributed generation
8. 2016 Remaining costs of early retired nuclear plant
New Uses For Securitization Are Emerging

Wildfire Mitigation and Liability Costs
Coal Ash Remediation
Undergrounding Distribution Systems
Grid Hardening
Accelerating Coal to Clean
Climate Change Initiatives
COVID-19 expenses and under collections

Key Elements Needed for Special State Law to Authorize Securitization to Achieve Stand-Alone AAA Credit Rating

1. Create “Intangible Property Right” to a “Non-Bypassable Charge” on All Ratepayers on Joint Basis – Right to Bill, Charge, Collect and Adjust = COLLATERAL

2. Allow “True Sale” of the Property Right (transfer) to Ring Fenced /Bankruptcy Remote Entity – LEGAL STRUCTURE


4. Require Automatic Ongoing Commission True Up/True Down Adjustment of Non-Bypassable Charge – No Cap!

5. Require State Pledge of Non-Interference with Bondholder Rights to Property/Charge/Collateral
4 Phases of Utility Securitization

Pass Special State Authorizing Legislation
- Address Rating Agency Issues
- Standards for Ratepayer Protections
- Commission Authority – Permissive or Restrictive

Utility Submits Financing Order Application
- Testimony from Utility and Commission
- Transparency

Write/Approve Detailed Financing Order
- Utility’s Draft vs. Commission’s
- Estimates v Actual Costs
- Ratepayer Protections

Implement Financing Order
- Structuring of Bonds
- Marketing
- Pricing

Protecting the Ratepayer Checkbook – Keeping Things in Balance
Traditional Utility Bond - Simple

- Electric Service Customers
- Utility
- Trustee
- Investors

Public Utility Commission

Ongoing oversight through rate cases.

Utility responsible for all costs. Utility seeks recovery through rate cases.

Bonds

Semi-Annual Principal & Interest Payments

Bondholders have direct claim on Utility.

SECURITIZATION Bond: VERY Complex

1. Utility Establishes a Newly Formed Ring-Fenced/ Bankruptcy-Remote Finance / Issuer Company
2. Cash Payment from Bond Proceeds (From Sale of Bonds to Investors)
3. Bond Proceeds (Cash received from Investors)
4. After Bonds sold, Special Non-Bypassable charges (as Trued-up) Added to Monthly Electric Bill
5. Utility Collects and Remits Non-Bypassable Charges
6. Investors have no recourse to Utility only to Special Property Right (non-bypassable charges). Ratepayers are responsible for all costs directly and jointly.

Legislature

Public Utility Commission

Monthly Electric Service Bill Payments with Separate Charge

Irrevocable Financing Order; No further review

Sale of Property for Cash Payment

Pledge of Property

Semi-Annual Principal & Interest Payments
Traditional Utility Bond Offerings are Negotiated in Market

Negotiating parties have competing and conflicting economic interests.

However, competing economic interests are balanced and checked in the negotiation to lead to an "efficient" and fair pricing result.

Regulators have full cost of capital ongoing review in rate cases.
Traditional Utility Bond Negotiation
Competing Economic Interests Balanced
and Checked with Commission Ongoing Oversight

Utility/Issuers → Investors

Underwriters → Commission

Each Party Acts in Its Own Economic Interest and Competing Economic Interests Are Balanced and Checked.

Utility/Issuers
Responsible for all costs. Seek lowest bond rates – can maximize allowed return by minimizing expenses between rate cases.

Investors
Seek highest return/rates for lending their capital in relation to bond's credit risk (rating) and other factors.

Underwriters
(middle person between issuer and investors) seek highest rates for the quickest sale while maintaining relationship with Utility/Issuer for future business.

Commission
Retains full ongoing regulatory review over Utility’s cost of capital – “Rate Cases.”
Bankers/Underwriters Have No Duty to Act in Ratepayers’ Best Interests ... Fully Disclosed.

“The primary role of Goldman Sachs, as an underwriter, is to purchase securities, for resale to investors, in an arm’s-length commercial transaction between the Issuer and Goldman Sachs will act in its own interest and has financial and other interests that differ from those of the Issuer.” ¹

¹ See Public Service of New Hampshire d/b/a Eversource Energy Docket No. DE 17-096 Securitization Petition Attachment RR 1-013 Page 2

Bankers/Underwriters Have No Duty to Ratepayers nor to Utility nor to Commission

Excerpt from Securitization Bond “Underwriting Agreement” Underwriters Required of an Issuer

Section Entitled: “Absence of Fiduciary Relationship”

1 [The utility] acknowledges and agrees that the Underwriters are acting solely in the capacity of an arm’s length contractual counterparty to the [utility] with respect to the offering of the Bonds ... (including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, (the utility) ...

2 [The utility will] consult with their own advisors concerning such matters and shall be responsible for making their own independent investigation and appraisal of the transactions contemplated, and the Underwriters shall have no responsibility or liability to (the utility) with respect thereto.

3 Any review by the Underwriters ... of the structure and terms of the transactions ... will be performed solely for the benefit of the Underwriters and shall not be on behalf of (the utility) . . . .”*

*See the language quoted above in AEP Texas securitization transaction 2012 https://www.sec.gov/Archives/edgar/data/18734/000090514812000702/061312-290-en13.htm
Wide variances in total interest costs to ratepayers.

Wide variances in transaction costs and utility efforts to achieve “lowest cost” versus only “lower costs.”

Credit spreads vary dramatically.
- U.S. Agencies + Sovereigns
- Mortgage-Backed Securities
- Pure Corporates + Utilities

Not all AAA’s price alike. Debate with underwriters over “relative value” of competing investments with higher yield/costs affects ratepayers long-term.

**FIDUCIARY DUTY:**

Who protects ratepayers from paying too much since the utility is not responsible for any costs and regulator must give up ongoing review?

**In securitization, every dollar is a ratepayer dollar.**

How negotiated capital markets bond deals work...
What is Different with Securitization Bond?

Economic and Competing Interests
Are Not Balanced and Not Checked.

Utility/Issuer
While still concerned about customers, Utility is not responsible for any bond costs – economic interest is to get the bond proceeds (money) as soon as possible.

Investors
Seek highest return/rates for lending their capital even at top quality AAA rate – not all AAA bonds are priced alike.

Ratepayers responsible for ALL costs!

Underwriters
(middle person between issuer and investors) continue to seek highest rates for quickest sale while maintaining relationship with Utility for future business.

Commission
Must forego all POST ISSUANCE regulatory review over charge on bonds. Not permitted to adjust any other utility rates.

Core Best Practices

CUSTOMER BENEFIT
A clear and meaningful "lowest cost"/greatest present value savings to ratepayers standard under market conditions at the time of pricing established.

AUTHORITY:
Commission authority to include additional terms and conditions in the financing order for the benefit of ratepayers and to protect the public interest in structuring, marketing and pricing.

REPRESENTATION:
Ratepayer representation and protection in all matters related to structure, marketing and pricing.

COMMISSION ACCESS TO INDEPENDENT EXPERTISE
Access to expert resources with a duty of loyalty solely to the Commission to complement staff to protect ratepayers' interests and support a fiduciary duty to ratepayers.

WRITTEN CERTIFICATIONS
Utility, underwriters, advisors should certify with confirmation by the Commission that the lowest cost standard/ greatest present value savings has been achieved.
Best Practices in Implementing the Commission’s Financing Order

**Fiduciary Duty – Best Interests**
- Decisions Concerning the Structuring, Marketing and Pricing of Securitization
- Bonds Need to be Made by an Entity with a Fiduciary Duty – Duty of Care and Loyalty – to Consumers/Ratepayers

**Utility Interests Not Aligned with Ratepayers**
- Utility and Consumer Interests Are Not Aligned so as to Approach Securitization as “Business as Usual”

**Need for Expertise**
- Experience and Expertise in Securitized Recovery Bond Issuance is Lacking at the Commission for Evaluation of Capital Market Alternatives

**Best Practices**
- 20 Years of Precedents Support Best Practices for Rigorous Analysis, Commission Oversight as a Joint Decision Maker Supported by an Independent, Experienced Financial Advisor

---

Best Practice Example: Florida (Duke Energy Florida (DEF)) Ratepayer Savings From an Active Commission Vs. Other States 2010-2016

- Established **Lowest Cost Objective in Financing Order.**
- Created Bond Team – **Commission and Utility.**
- Sold $500+ million LONG Duration 15-20 years.
- Largest offering with longest maturity of its kind to date.
- Offering was in untested long-term (>15 years) market.
- Long maturities are most expensive to ratepayers.

---

2016 Florida Public Service Commission Actions

- **2010-2016 Investor-Owned Utility Securitization Spread To Top Rated AAA US Agencies Curve**
  - Entergy New Orleans Storm Recovery
  - All Other States
  - **Florida**

Basis points (bps) = .01%
JOE - NEED HELP ON THIS ONE.
Laura Cheshire, 11/8/2020
### Besides Lowest Cost Pricing, Emerging Utility Securitization Issues

<table>
<thead>
<tr>
<th>Should securitization debt be a permanent part of a utility’s ongoing capital structure or “one-off”? If permanent, create smaller balance sheet? Create safer credit?</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much securitization is too much?</td>
</tr>
<tr>
<td>Always used voluntarily, at option of utility or can it be mandated?”</td>
</tr>
</tbody>
</table>