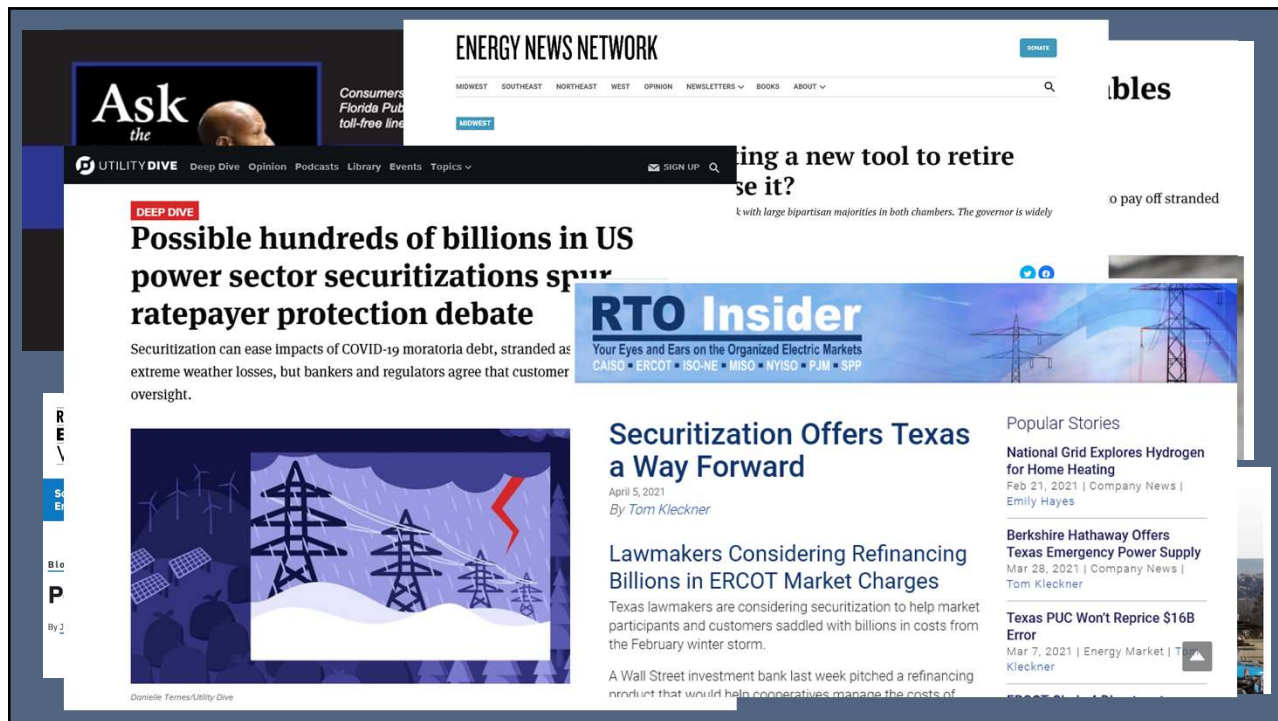
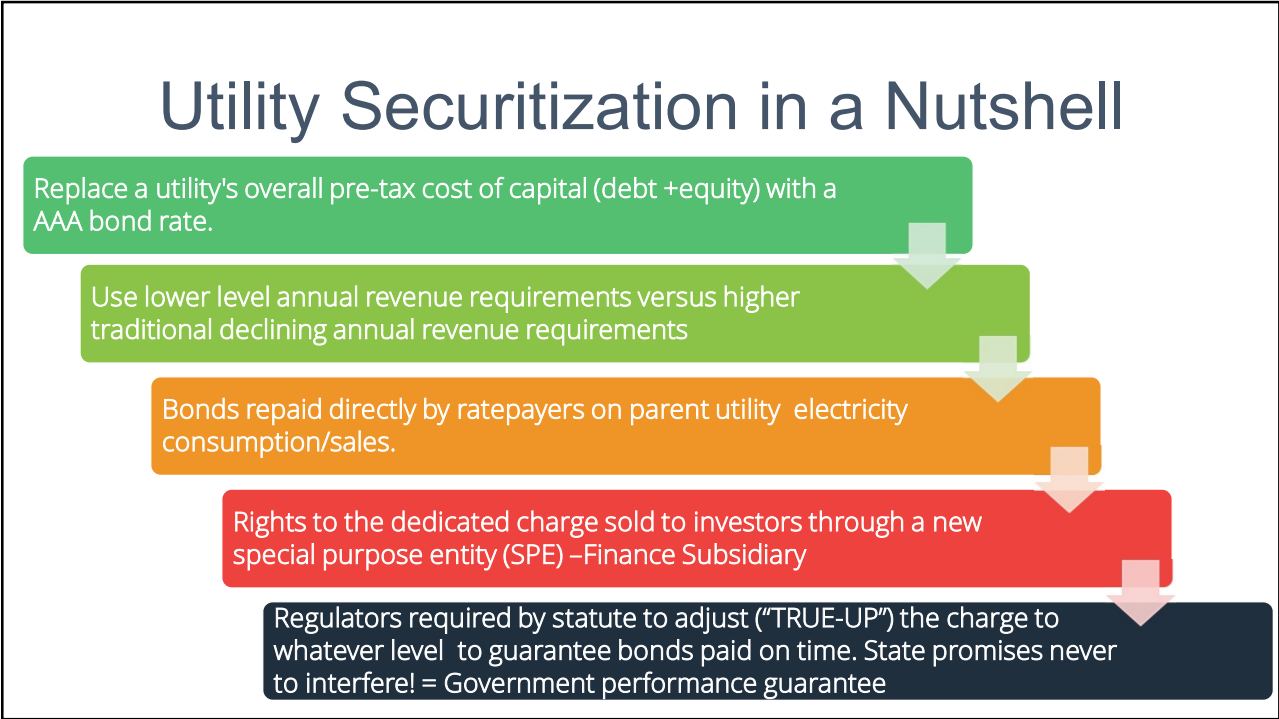




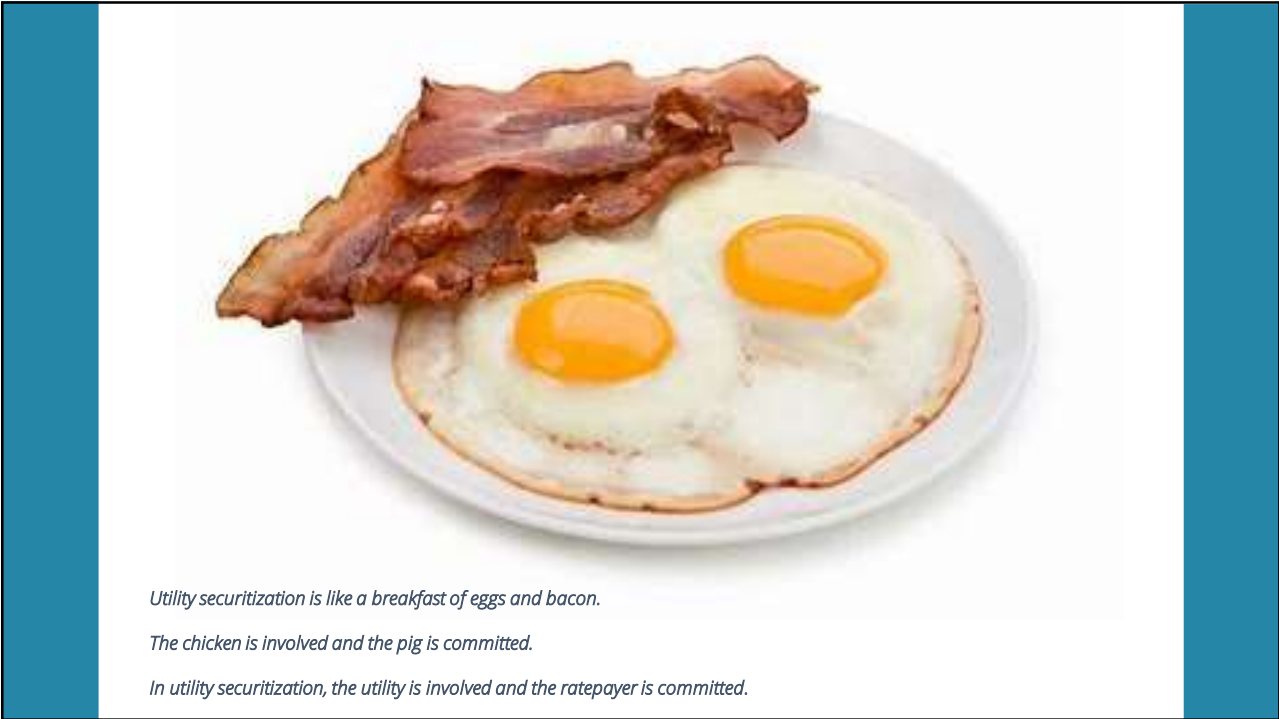
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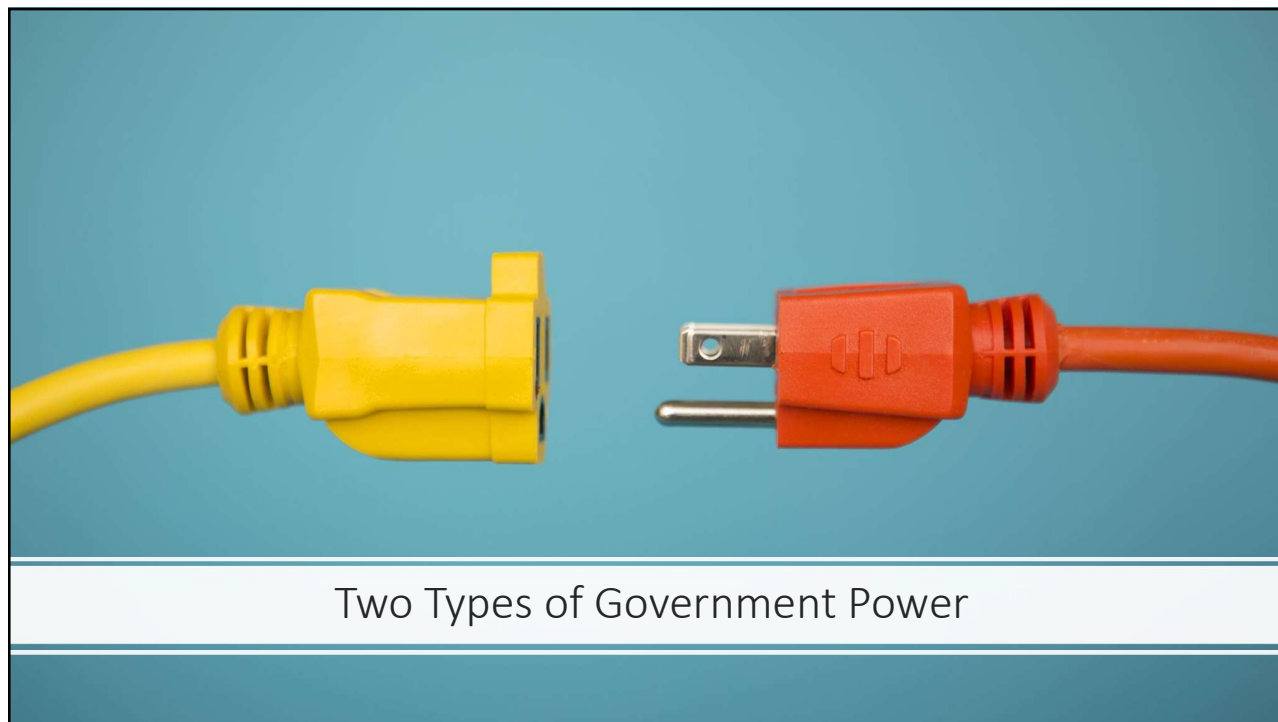
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Two Types of Government Financial Authority

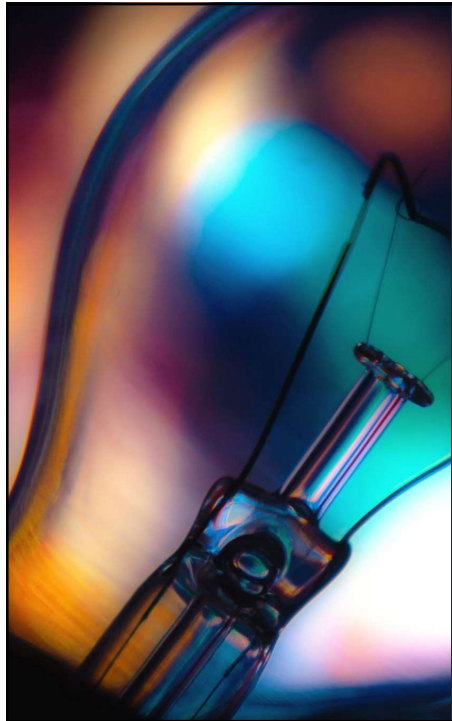
Taxing Authority

- Levy taxes on individuals, businesses, and various economic activities.
- Primary source of revenue to fund public services and infrastructure.
- Taxes can be progressive, regressive, or proportional, depending on policy goals.
- Types of Taxes:
 - ✓ Income
 - ✓ Sales
 - ✓ Property
 - ✓ Excise

Regulatory Authority

- Antitrust laws, price controls, and oversight agencies.
- Electricity is a critical commodity for modern society.
- Government regulation essential to ensure reliability, affordability, and fairness.
- Balancing the interests of consumers, utilities, and the environment.
 - ✓ Market monitoring: Oversight to prevent market manipulation.
 - ✓ Licensing and permits: Ensures only qualified entities operate in the market.
 - ✓ Environmental standards: Mandates for reducing carbon emissions.
 - ✓ Tariff setting: Regulators determine pricing structures for electricity.

6



Government Regulatory Authority over Sales of Essential Commodity = AAA Corporate Bond

- **Special state legislation authorizes recovery of specific costs deemed prudent through a special bond financing**
 - Repaid from electricity a dedicated non-bypassable charge on future electricity sales as a joint liability of all customers [Sales tax?]
 - Authorizes state utility regulators to issue an irrevocable financing order to allow utility to sell bonds with the Financing Order collateral [intangible property right]
 - Pledges state not to interfere with bondholder rights to be paid
- **Bonds sold through bankruptcy remote/ring fenced utility financing subsidiary**
 - Government's Financing Order is pledged as collateral
 - Order contains robust "true-up mechanism" to adjust charge every 6 months on forecasted future sales to whatever level necessary to repay bonds
 - State's regulatory authority and pledge on non-interference guarantee charge will be applied and enforced
 - AAA rated

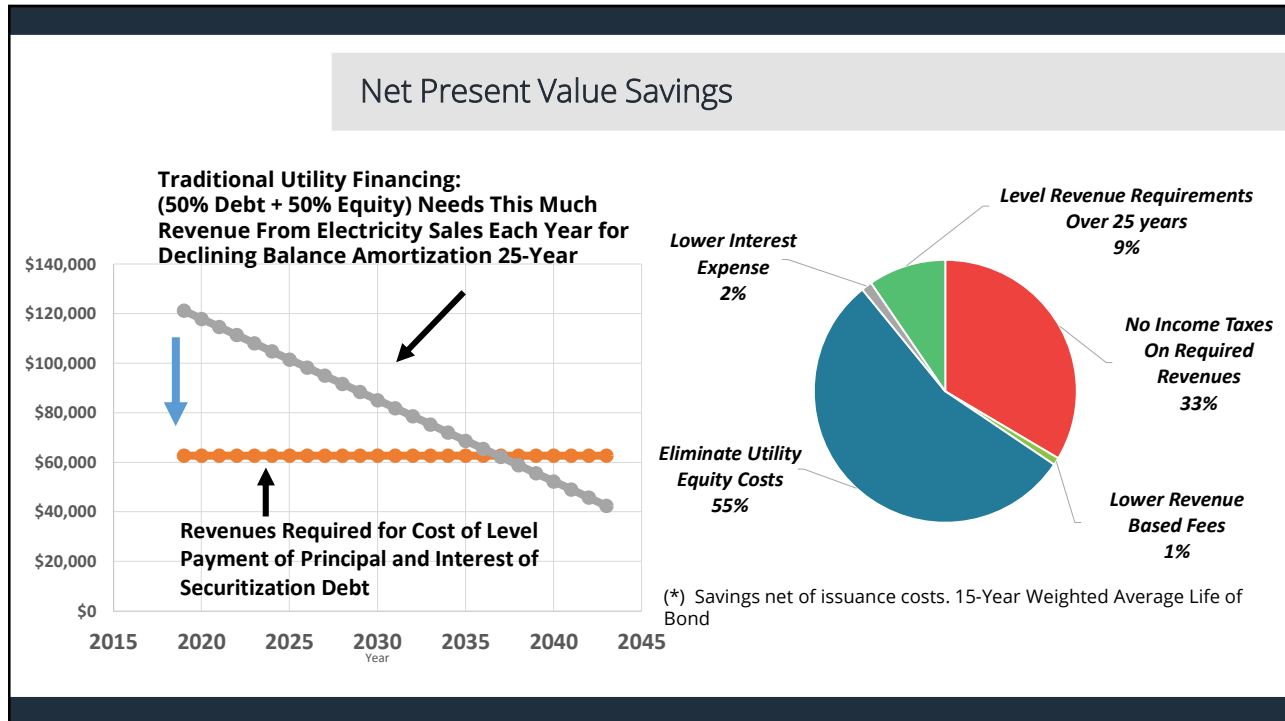
7

Where Do Securitization Savings Typically Come From?

- **Less Expensive AAA-rated Debt**
- **Elimination of Equity Component of Capital**
- **Levelization of Revenue Stream from Consumers**
- **Extend Amortization- Repayment Period**

8

8



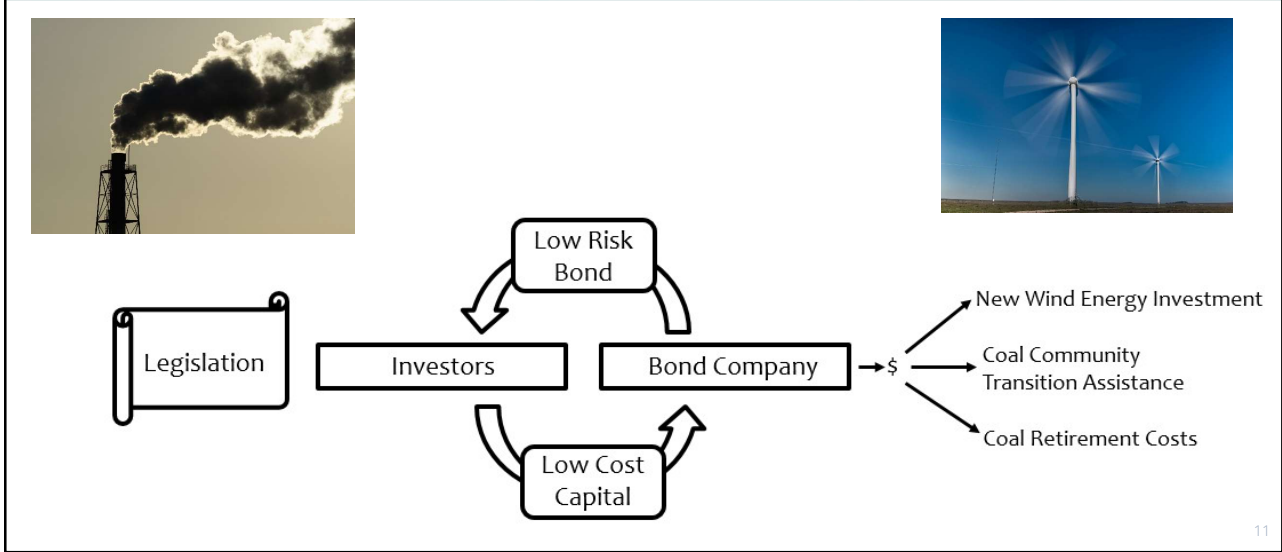
9

How Ratings Agencies View Utility Securitizations

- Moody's: "Utility cost recovery through securitization is credit positive." *Sector In-Depth report, July 18, 2018*
- Fitch: "Fitch believes that special tariffs (under all scenarios) in excess of 20% of the customer bill over a long financing term would generally be inconsistent with a 'AAAsf' rating." *Fitch Stranded Cost Bond Rating Criteria, November 30, 2017*
- S&P: "... Standard & Poor's will "back out" for analytical purposes nonrecourse debt and associated carrying costs from the utility's consolidated financial statements." *Overview of Stranded Cost Securitization, re-published December 5, 2011*

10

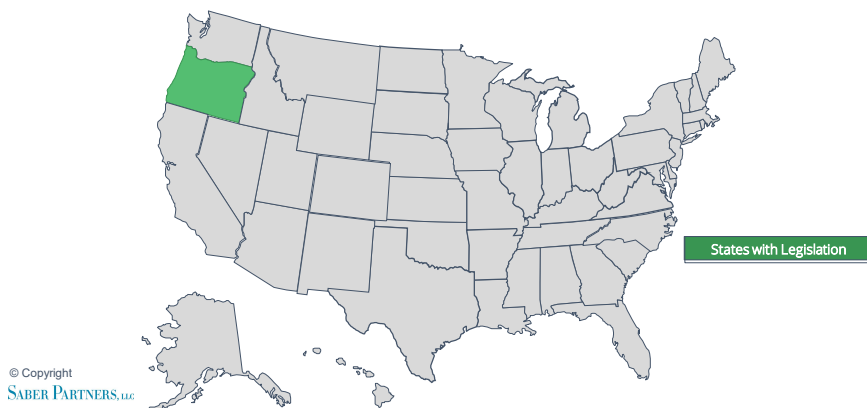
Sustainable Capital Recycling



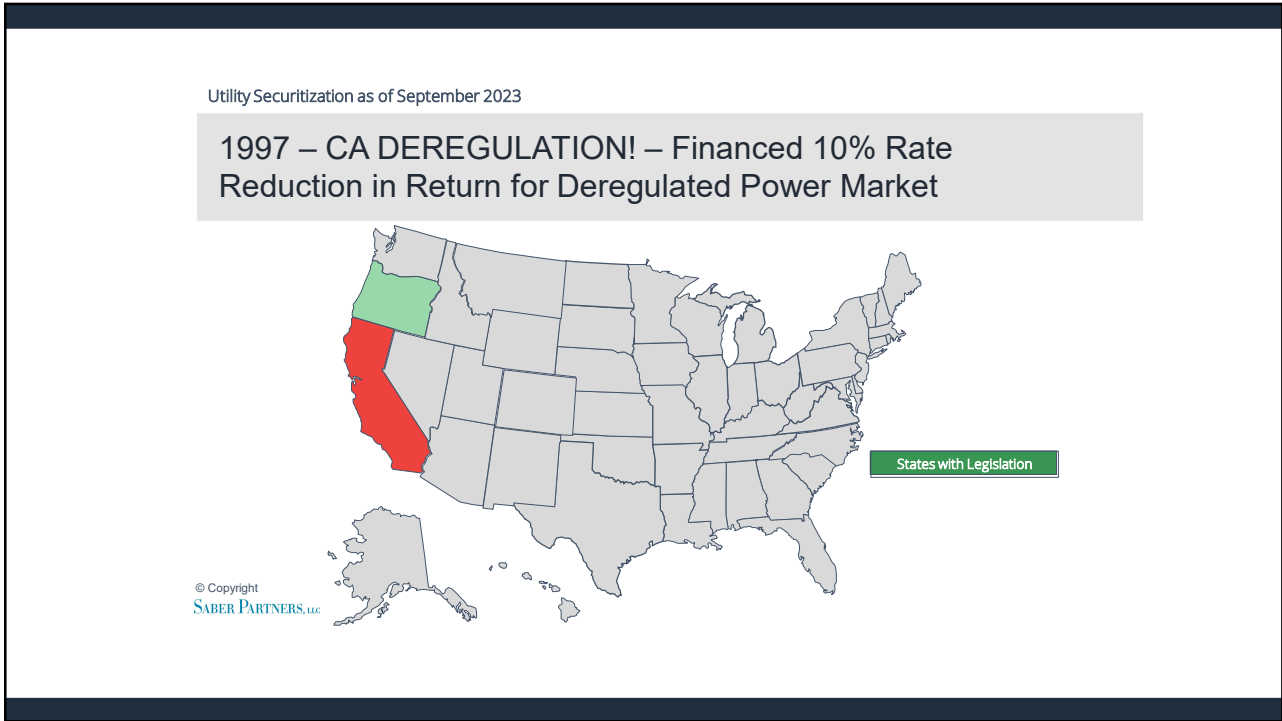
11

A Brief History of Utility Securitization as of September 2023

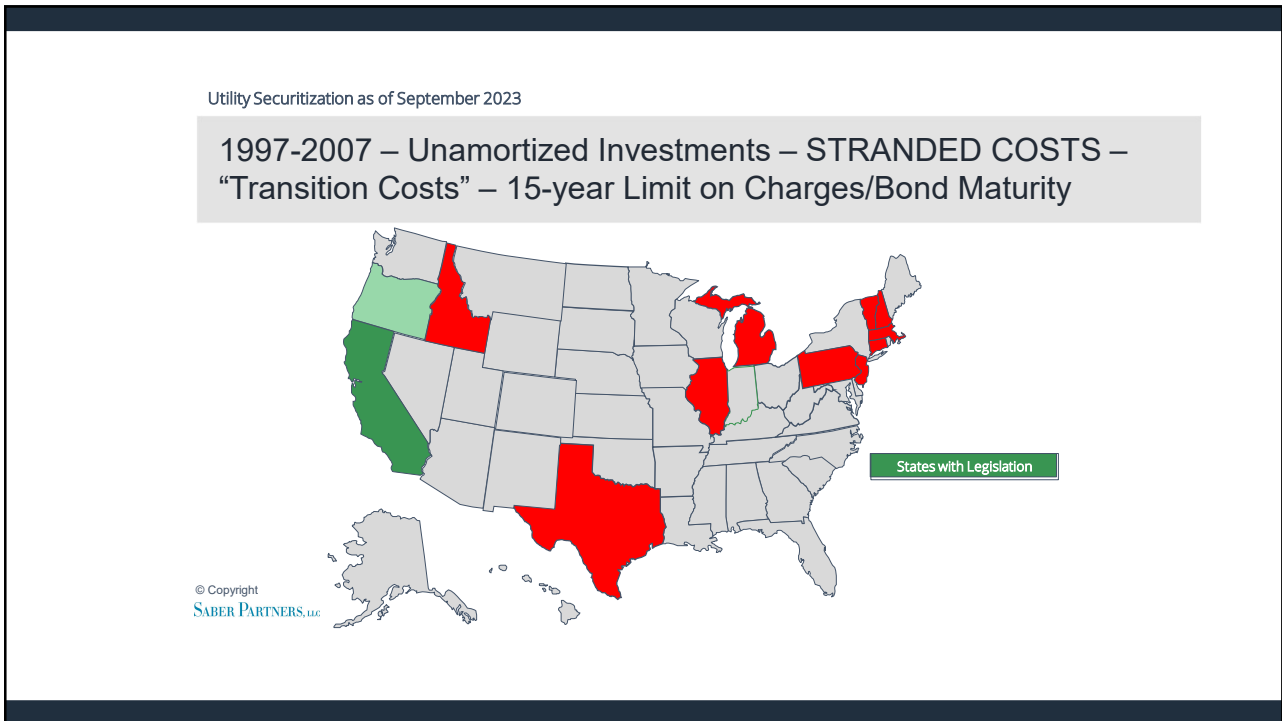
1994 – Demand Side Management Costs – Regulatory Asset



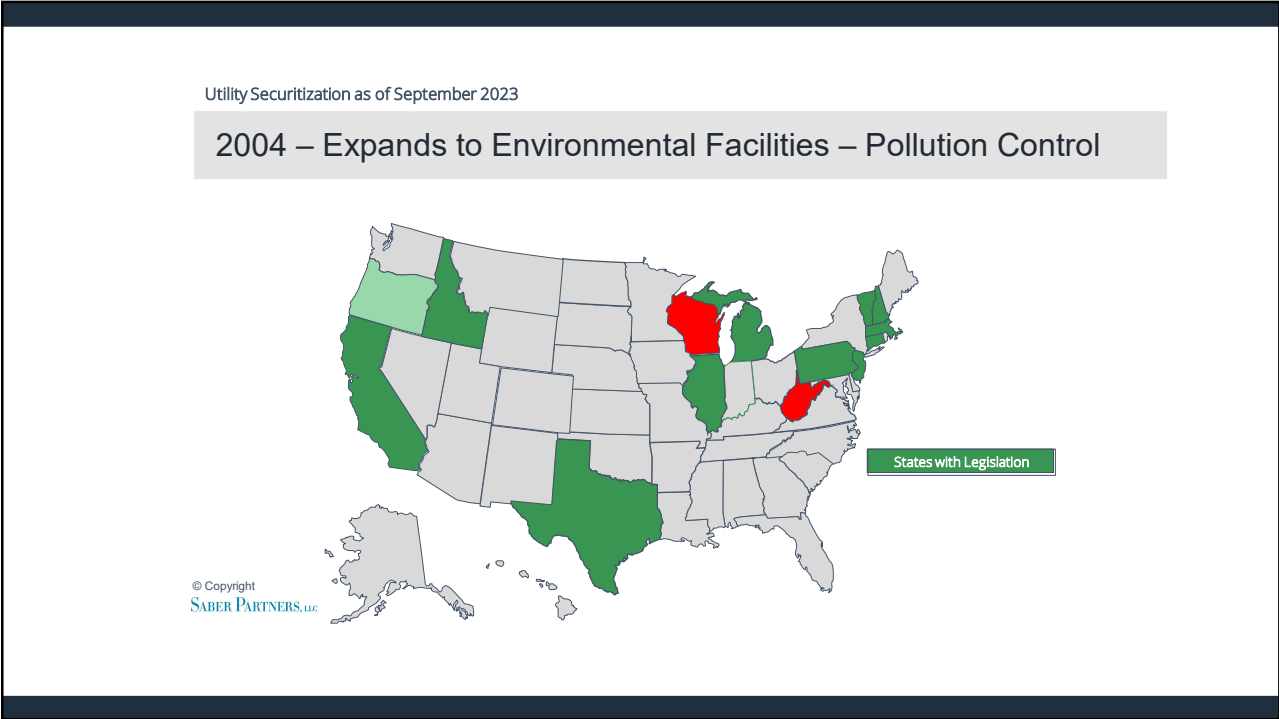
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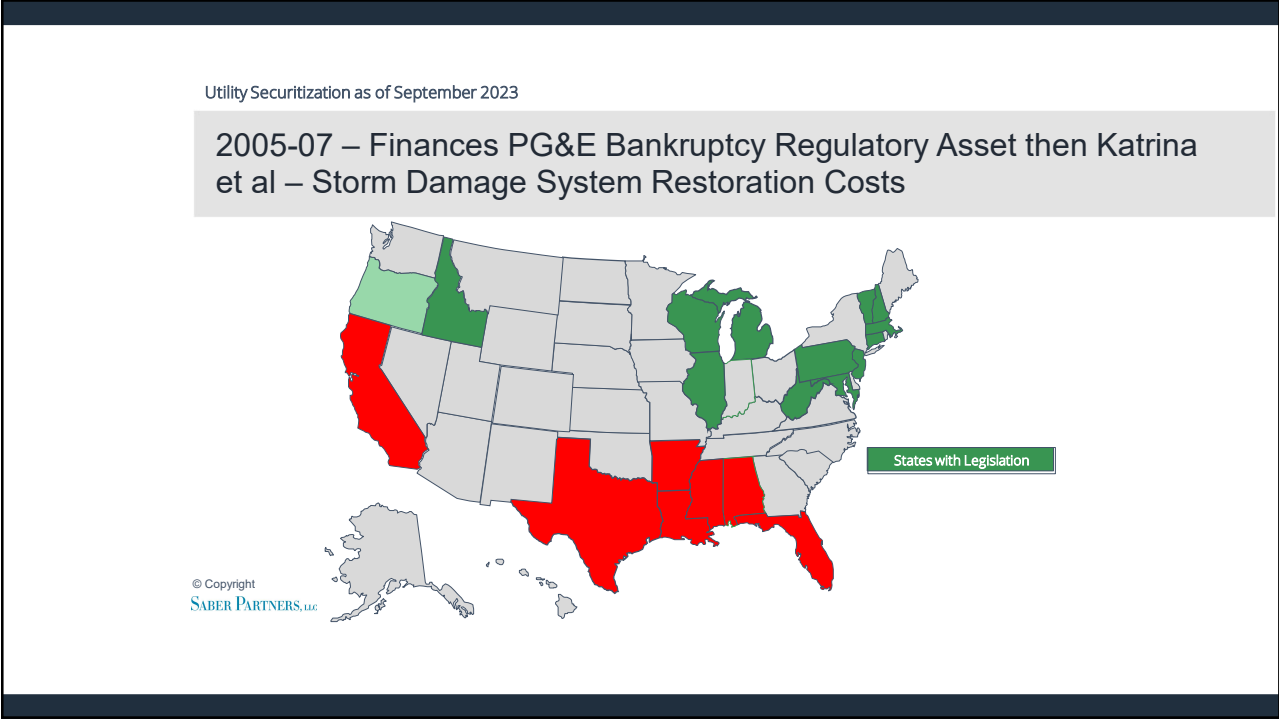
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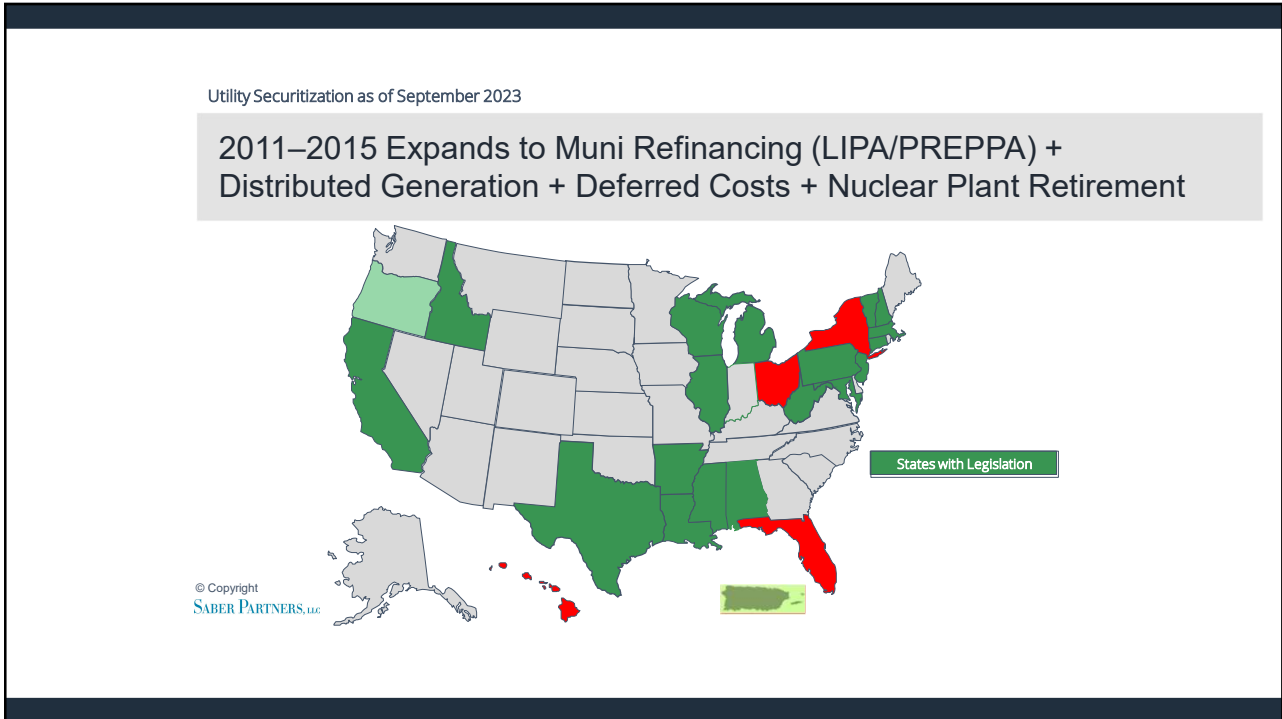
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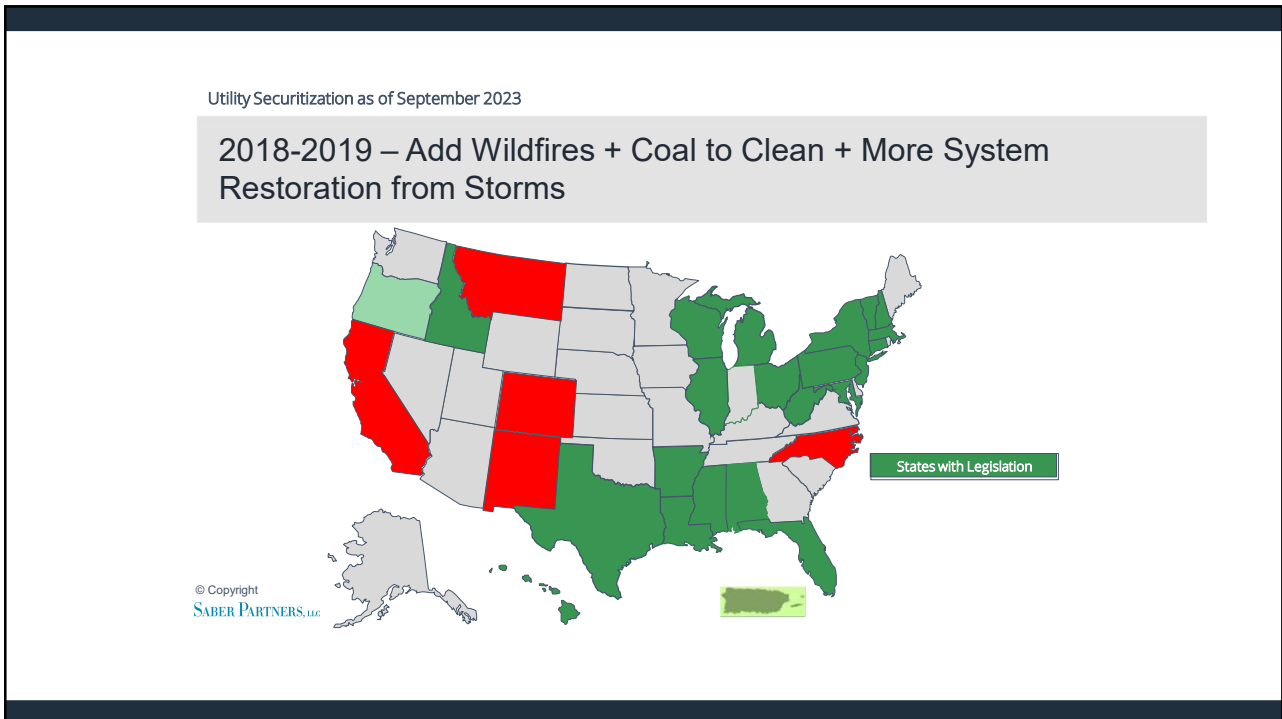
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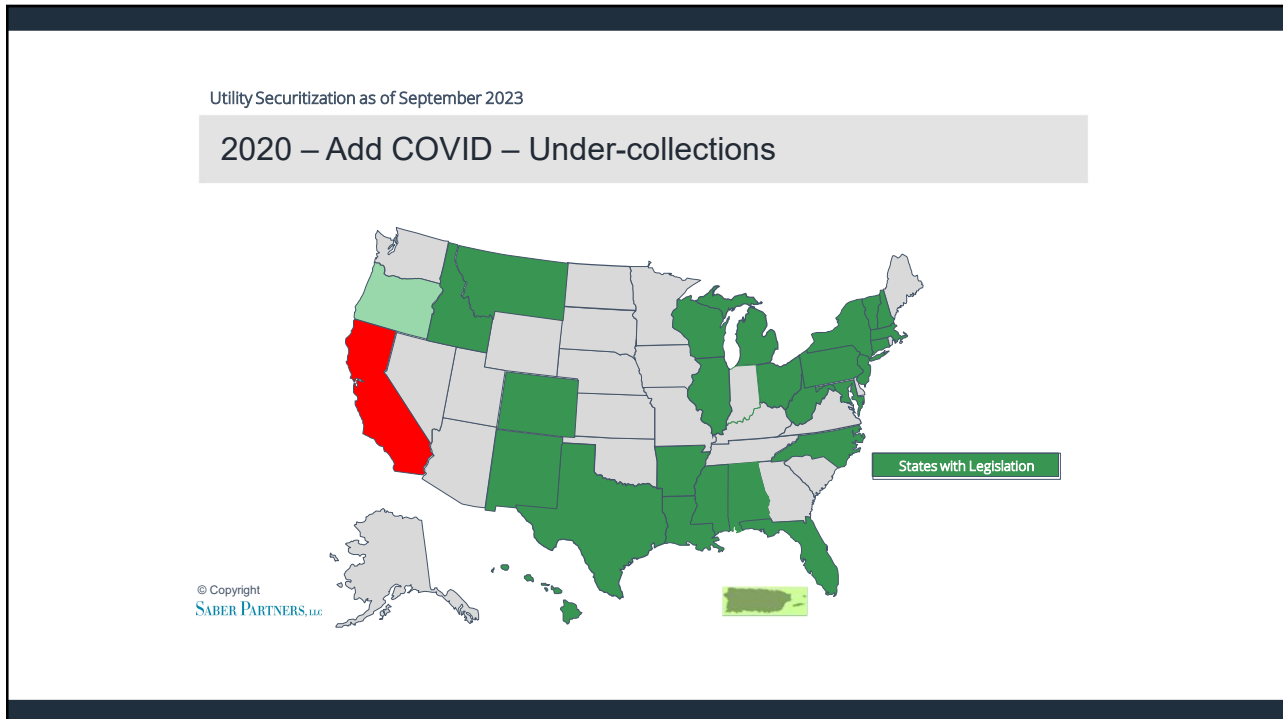
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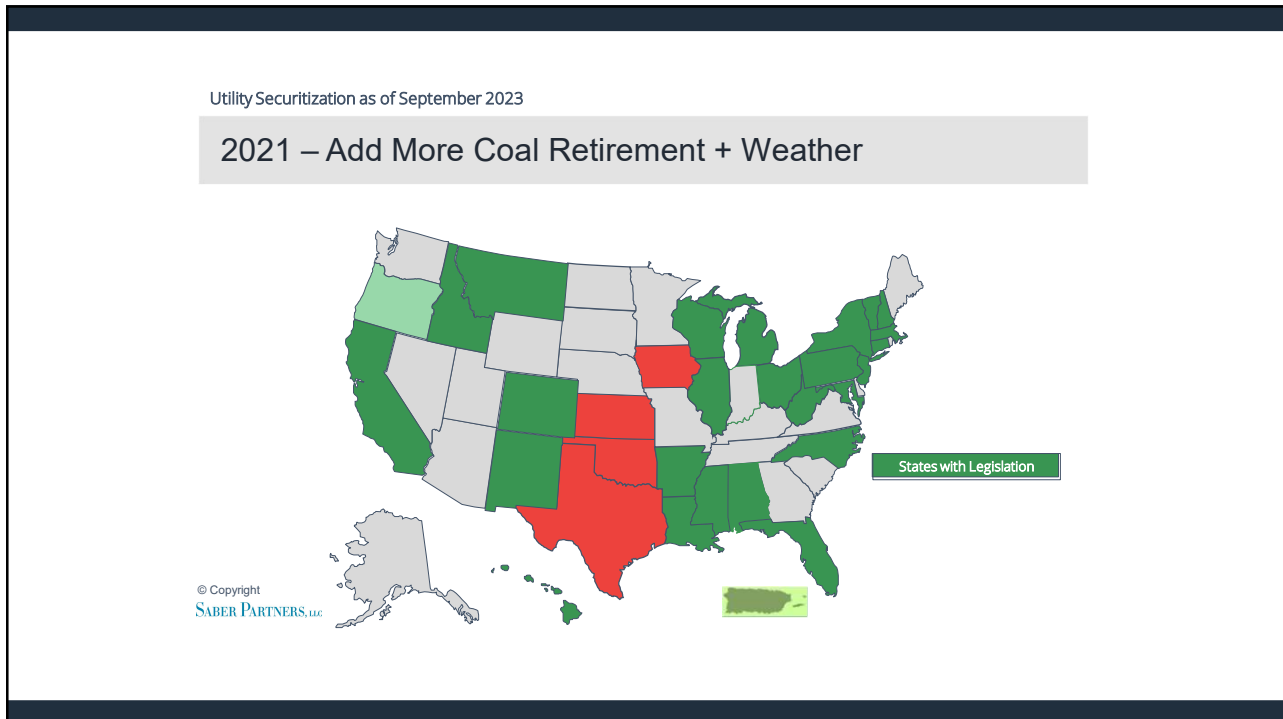
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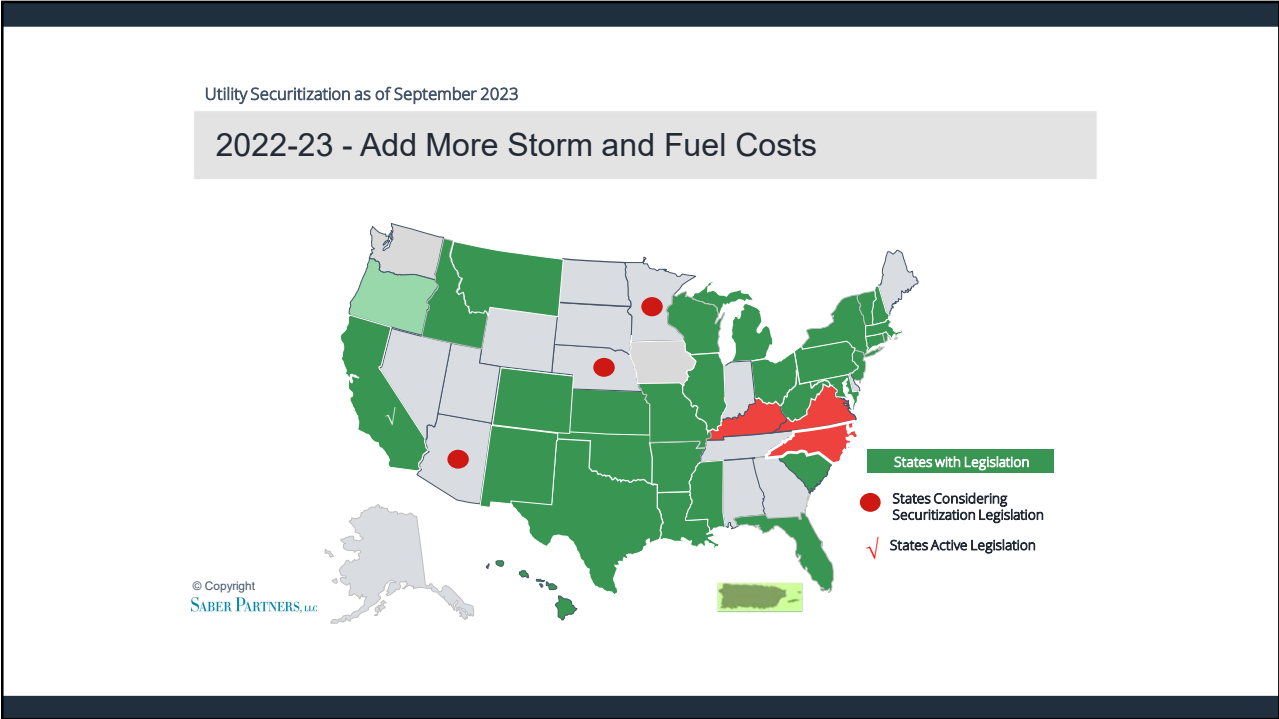
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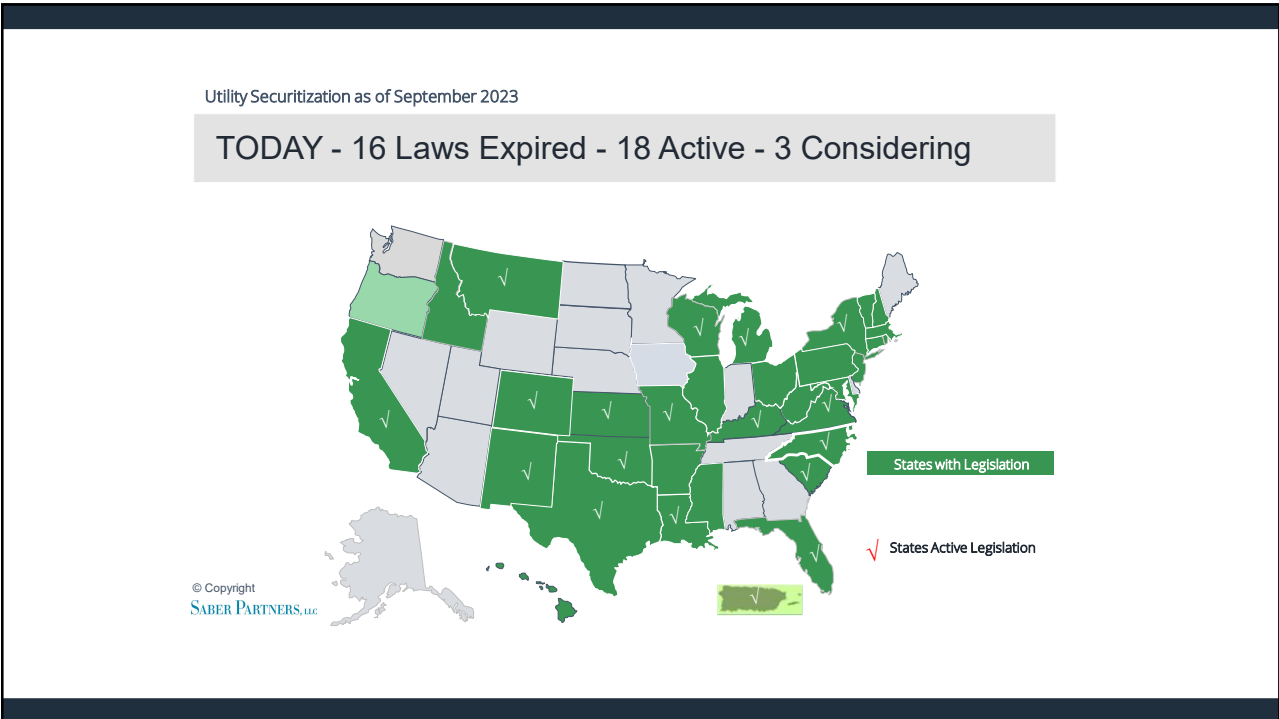
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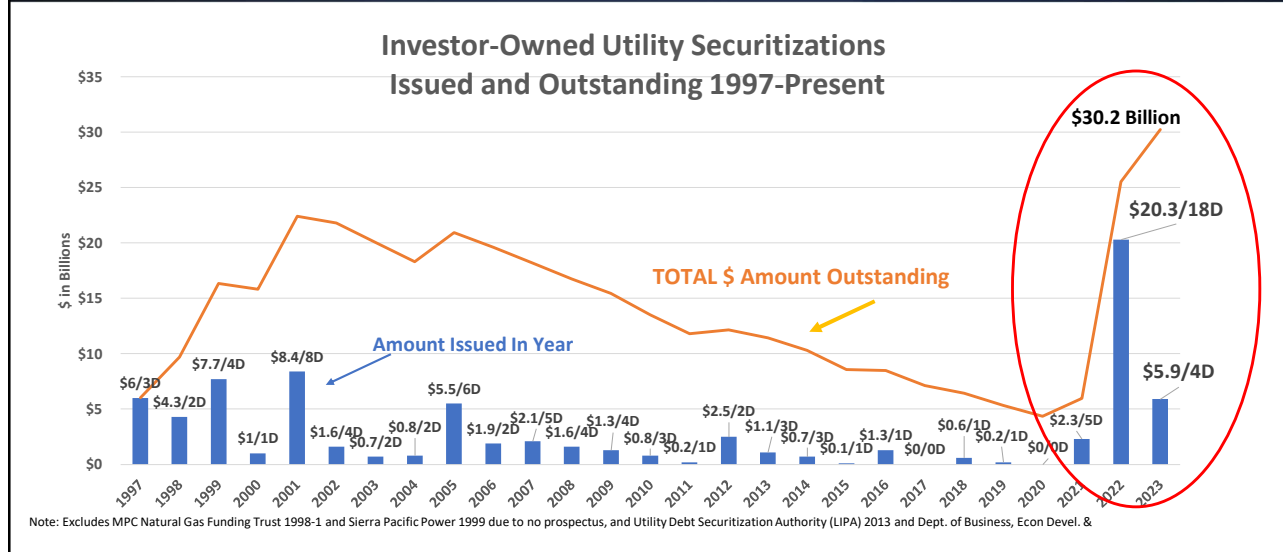


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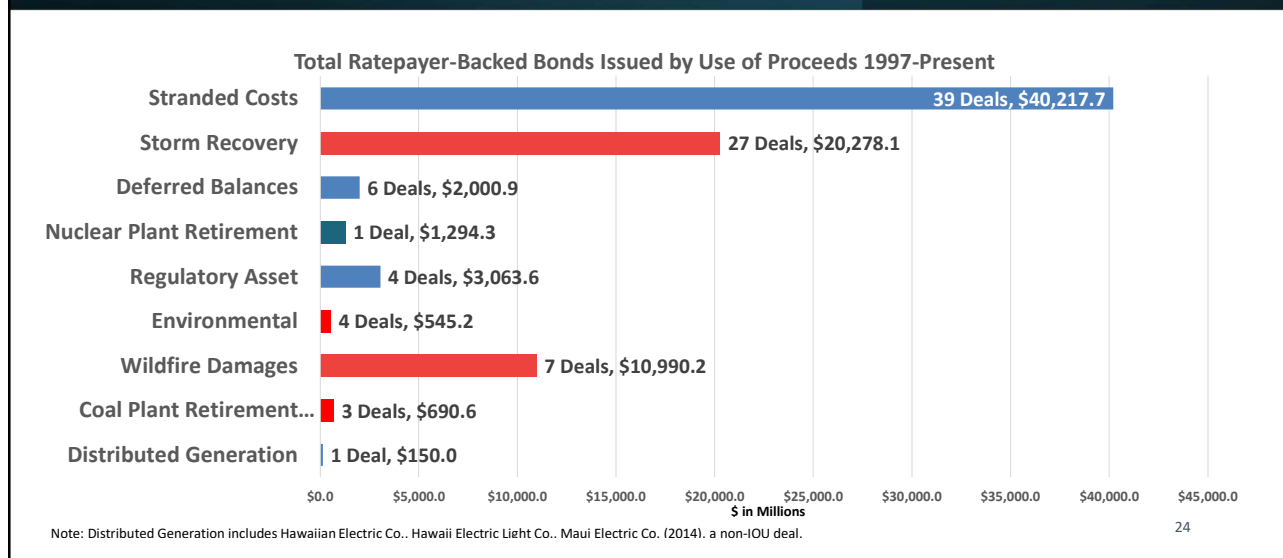
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Ratepayer-Backed Bond (RBB) Massive Increase in Issuance \$30.2 Billion Outstanding as of 12/31/2023



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Environmental Costs 2nd Highest Use of Utility Securitization



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Success Stories: Securitization Has Resulted in Much *Lower Revenue Requirements* and *Large Savings in Today's Dollars (NPV)* for Ratepayers



- Allegheny Energy (Monongahela & Potomac Edison) (WV) 2007,09
- ✓ \$543 million in pollution control equipment and upgrades.
 - ✓ **\$130 million NPV Savings**



- Consumers Energy (MI) 2014
- ✓ \$389.6 million unrecovered depreciation of 950 MW of coal-fired capacity retired 2016.
 - ✓ **\$135 million NPV Savings**

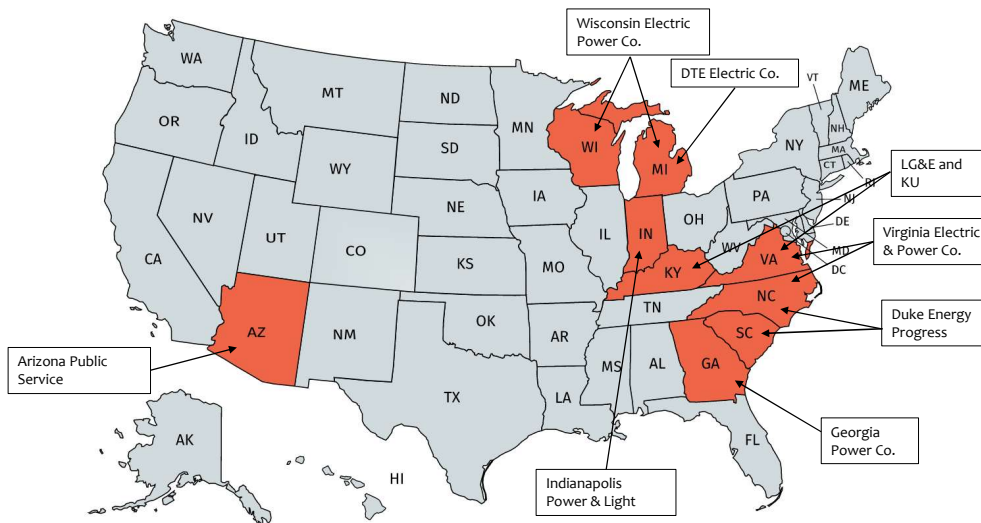


- Duke Energy Florida (FL) 2016
- ✓ \$1.294 billion in unrecovered depreciation of a closed/early retired nuclear plant.
 - ✓ **\$680 million NPV Savings**



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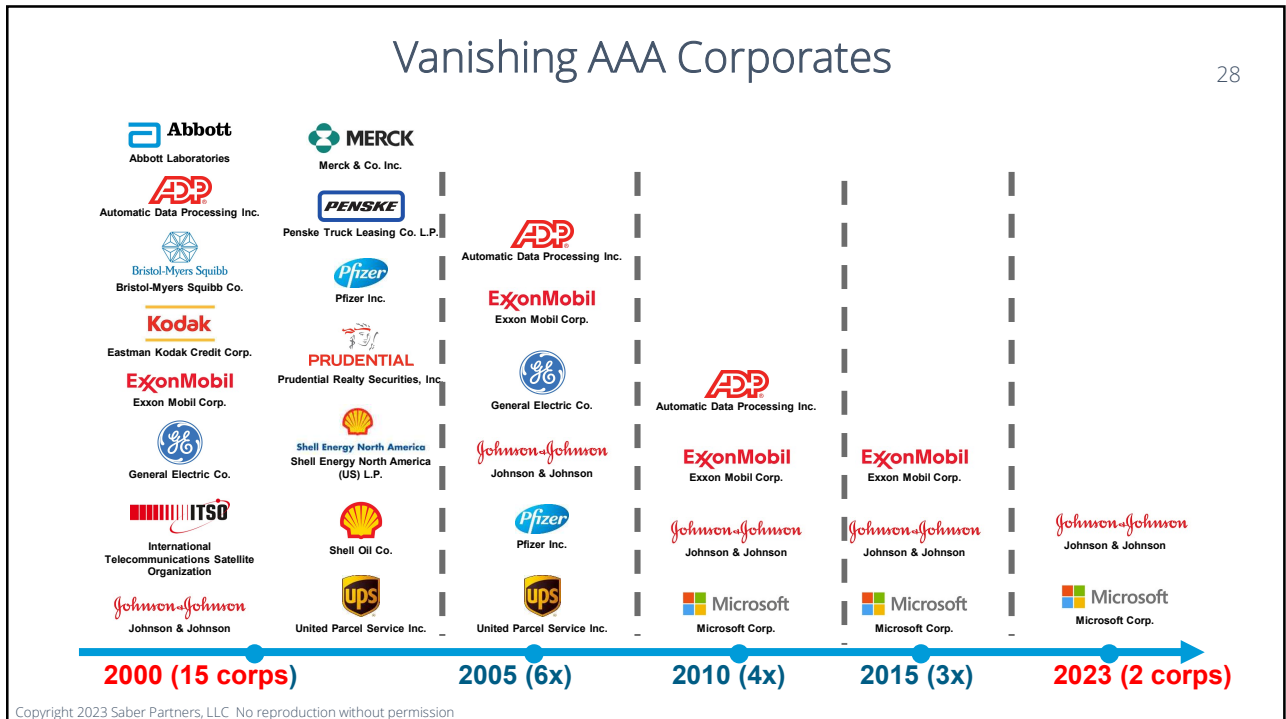
Coal Plant Retirement Targets: MI, GA, VA, NC, SC, WI, KY, AZ, IN



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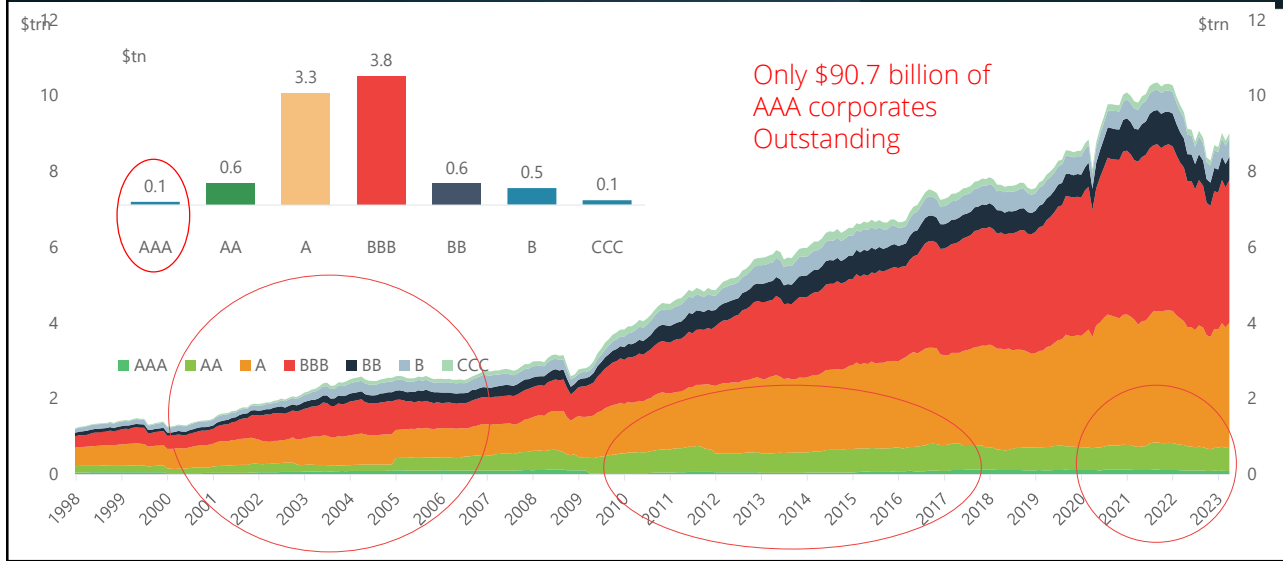


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US Corporate Bond Market Mainly Weaker Credits



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50% BBB/ Only 1.2% AAA 1989-2022



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Efficiency & Indexing Bloomberg Creates an Issue – Unfairly Restricting the Market?

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<http://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpenf091907-1101.htm>

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J.S. Securities and Exchange Commission

**Regulation AB
Item 1101**

September 19, 2007

**Response of the Office of Chief Counsel
Division of Corporation Finance**

Re: MP Environmental Funding LLC, PE Environmental Funding LLC
Incoming letter dated September 7, 2007

Capitalized terms used in this response have the same meaning as defined in your letter. Based on the facts presented, it is the Division's view that MP Funding and PE Funding are not asset-backed issuers and the Bonds are not asset-backed securities within the meaning of Item 1101 of Regulation AB. Notwithstanding that conclusion, the Division will not recommend enforcement action to the Commission if the Issuers file periodic reports related to the Bonds in compliance with the disclosure and reporting regime established in Regulation AB.

This position is based on the representations made to the Division in your letter. Any different facts or conditions might require the Division to reach a different conclusion. Moreover, with the exception of the position concerning the status of the Issuers and Bonds under Item 1101 of Regulation AB, this response merely expresses the Division's position on enforcement action, and does not purport to express any legal conclusions on the questions presented.

Sincerely,
Jeffrey S. Cohan
Special Counsel

Incoming Letter:
The Incoming Letter is in Acrobat format.

<http://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpenf091907-1101.htm>

Home | Previous Page Modified: 09/20/2007

2

SEC No Action and Legal Conclusion 2007

"Based on the facts presented, it is the Division's view that MP Funding and PE Funding are not asset-backed issuers and the Bonds are not asset-backed securities within the meaning of Item 1101 of Regulation AB"

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Decision to Include in Corporate Index 2016 – Duke Energy Florida Project Finance LLC



Technical Note Classification of Duke Energy Florida Project Finance, LLC Series A Bonds

Following a formal *consultation* period, the Barclays index group plans to classify index-eligible Duke Energy Florida Project Finance Series A bonds (Ticker: DUK; issued on June 16, 2016) as **Corporate > Utility issues**.

For any questions, please contact your regional index group or email index_feedback@barclays.com.

Barclays Risk Analytics and Index
Solutions
17 June 2016

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index-us@barclays.com

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33

33

Recognized as
Precedent
Established
Thoroughly
Vetted – Lowest
Cost to Ratepayer
on Top of AAA
Corporate –JNJ
/TVA

Asset Securitization Report

Duke's Utility Fee Securitization Sets Important Precedent

By Allison Bisbey

June 21, 2016

- Printer Friendly
- Email
- Reprints
- Comments

Share

Duke Energy Florida marketed its \$1.3 billion securitization of utility fees as a corporate bond, and the strategy appears to have paid off. The deal was priced last week at interest rates in line with those of some the highest rated U.S. companies and government agencies.

DEF's bonds are tied to a special charge on the utility's electric delivery and transmission services that is associated with the retirement of the Crystal River Unit 3 nuclear power plant. The bonds are also backed by a guarantee of the state's utility regulator to adjust the charge every six months to whatever level is necessary to pay the bonds on time.

The securities have unusually long durations for this sector, over \$500 million had maturities from 15 to almost 19 years. By comparison, most other deals in the utility sector have original terms under 10 years. The tranche with the longest duration pays a spread over Treasuries similar to those of triple-A rated bonds issued by Johnson & Johnson and the Tennessee Valley Authority.

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But June 2022
 Surprise
 Announcement

Bloomberg Fixed Income Indices

June 8, 2022

Index Announcement

Recovery Bonds Classification
 Consultation: Corp vs ABS

This is based on
 SEC No Action
 Letter in 2007

The Bloomberg Index team is opening a formal review of the classification of recovery bonds and their treatment with regards to their membership in the corporate vs ABS index.

Since February 2021, a number of deals containing recovery bonds have been issued. These bonds are currently classified as Corporate on the Bloomberg terminal and in the fixed income indices. These deals were brought to the market by the underwriters as corporate deals. There is language in some of the deal documentation along the lines of

'Neither the issuing entity nor the depositor is an asset-backed issuer and the recovery bonds are not asset-backed securities as such terms are defined by the SEC in governing regulations Item 1101 of Regulation AB.'

The structure of these deals allows that investors have no recourse to the Corp parent in the event of default. They are not guaranteed by the Corp parent (eg:PG&E) but are backed by the recovery property.

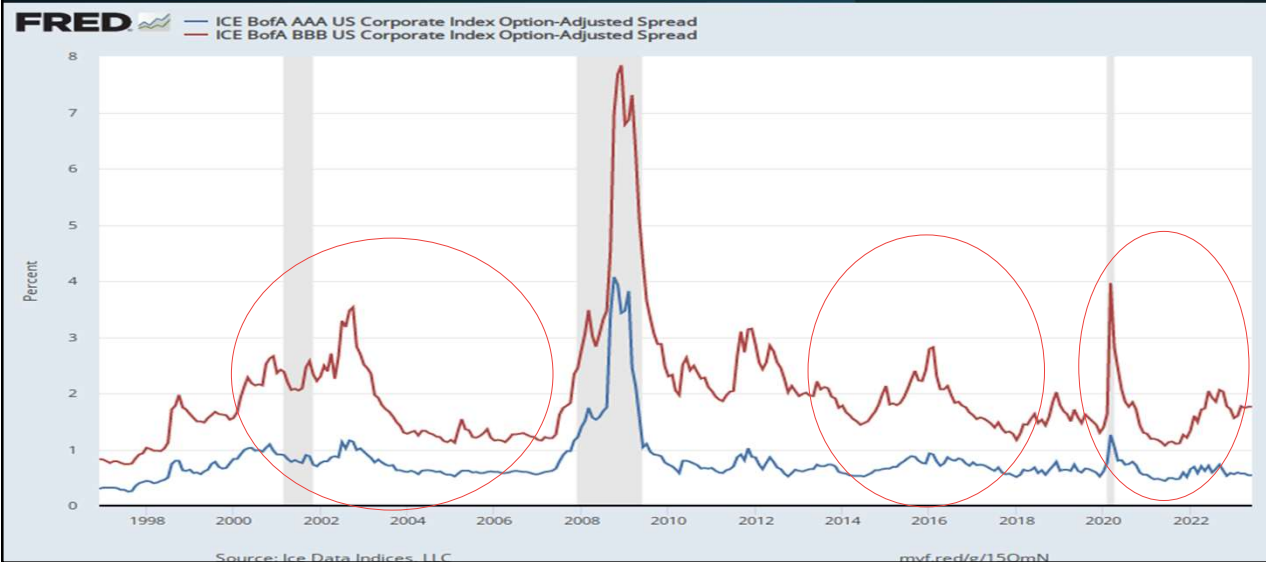
In light of the above, the Bloomberg index team is formally opening it's index governance review of the Classification of these bonds as corporate vs ABS.

Please forward your feedback on the above along with any additional suggestions or thoughts to your regional index team or email indexhelp@bloomberg.net. This feedback will be considered by Bloomberg's internal index governance committee, and Bloomberg will decide unilaterally whether, and how, to respond to any feedback, comment, or recommendation that results from the review process. A formal announcement regarding the outcome of the governance review will be made at the conclusion of the process.

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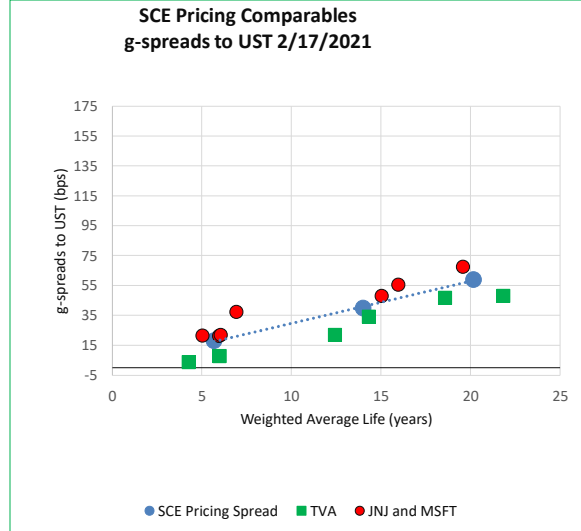
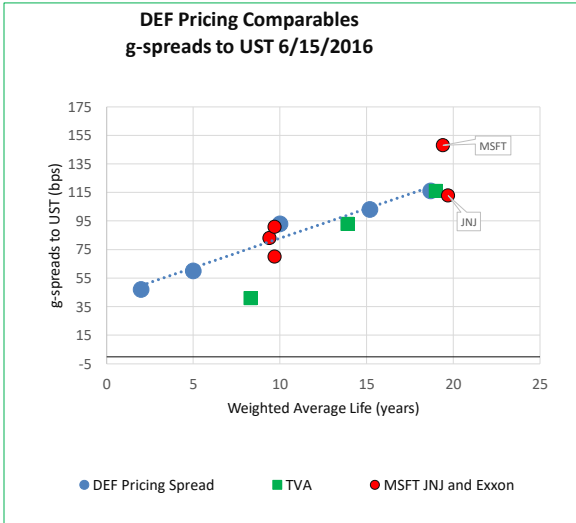
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AAA & BBB Credit Spreads versus UST
 1998-2023



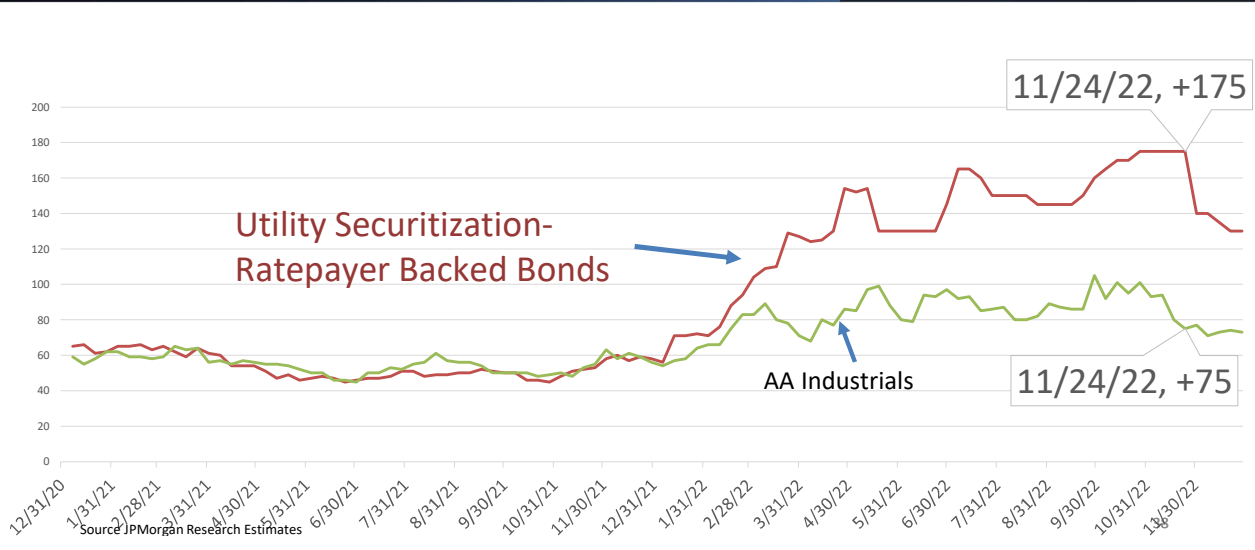
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In 2016, Florida utility recovery bonds priced close to AAA corporates, as did California in 2021



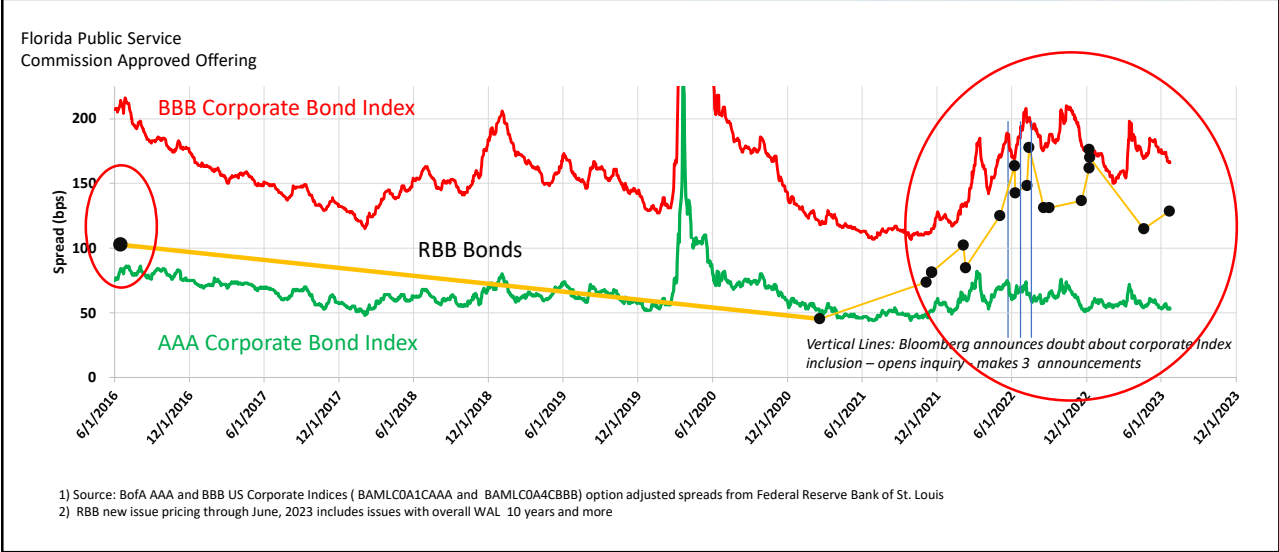
37

But The Empire Struck Back - Unexplained Changed Relationship Credit Spread to 10-Yr US Treasuries vs Corporates 2020-2023 Source: JPMorgan Estimates



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But this market is in "party mode"! Pricing closer to BBB than AAA e.g. 15 year



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Bankers Flaunt Mispricing

Published By Citigroup Research - January 27, 2023

VIEWPOINT | ABS Weekly

Rate Reduction Bonds: Cheap Long Triple-As

CITI'S TAKE
 Rate Reduction Bond (RRB) spreads at 135bp for 10+yr WAL bonds present an attractive entry point for investors. RRB, rated triple-A, are 40bp wide to triple-A/double-A corporate index and 15bp wide to single-A utilities. Almost 70% of 2022 RRB issuance has WAL of more than 10 years.

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Bankers Flaunt Misclassification "CORP Ticker, but..."

Published By Citigroup Research - January 27, 2023

CORP Ticker, but in ABS Index

A total of \$25B (all triple-A) utility ABS is outstanding, comprised of 25 shelves (Figure 4), with only 8 shelves with \$500mm or more outstanding. One shelf, PCG, has \$9B outstanding, more than a third of the total. More than 70% of RRB bonds were issued with CORP ticker (modeled as sinkable bond), while only two shelves used MTGE ticker in 2022 (LCDA and ODFA). Starting in August 2022, all RRB are classified as ABS by Bloomberg and are part of Bloomberg US Agg ABS Index. As of January 2023, RRB account for 11% of the ABS Index.

Figure 4. Utility ABS Outstanding, Shelves with more than \$0.5B Outstanding

Shelf	Ticker	Issuer	Outstanding (\$B)
PCG	CORP	PG&E Energy Recovery Funding LLC	9.28
LCDA	MTGE	LA Local Gov't Environmental Facilities and Community Dev. Auth. Restoration	3.52
ODFA	MTGE	Oklahoma Development Finance Authority	2.81
ERCOTT	CORP	Texas Electric Market Stability Funding	2.12
DUK	CORP	Duke Energy (Carolinas/Progress NC Storm Funding, Florida Project Finance)	0.96
RAYCSC	CORP	Rayburn Country Securitization LLC	0.90
EIX	CORP	SCE Recovery Funding LLC	0.85
BRELPO	CORP	Brazos Securitization LLC	0.71

Source: Bloomberg, Citi Research

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Inefficient Pricing: Mispricings vs Corporate - \$3.3 Billion Nominal Cost Ratepayers in 2021-23

Date	Deal	BPS Over Comps	Principal Amount (\$ millions)	Weighted Average Life	NPV Cost at WACC (\$ millions)	NPV Cost as % of P. A.	Nominal Cost (\$ millions)	Nominal Cost as % of P. A.	Nominal Cost per \$1,000 of P.A.
2/17/2021	SCE 2/17/2021	1.3	337.783	12.43	0.30	0.09%	0.59	0.18%	1.76
5/4/2021	WEPCO 5/4/2021	11.8	118.814	6.81	0.66	0.56%	1.01	0.85%	8.47
11/4/2021	PGE (1) 11/4/2021	31.3	869.399	13.81	19.93	2.29%	41.49	4.77%	47.72
11/17/2021	DEC 11/17/2021	24.7	237.210	10.83	3.71	1.56%	5.26	2.22%	22.18
11/17/2021	DEP 11/17/2021	26.4	769.627	10.75	12.87	1.67%	21.68	2.82%	28.17
2/3/2022	Rayburn 2/3/2022	31.1	908.2	16.20	22.81	2.51%	51.16	5.63%	56.33
2/8/2022	SCE 2/8/2022	12.3	533.265	14.19	4.95	0.93%	10.32	1.94%	19.35
3/10/2022	DTE 3/10/2022	55.5	235.800	4.26	6.82	2.89%	10.67	4.53%	45.27
3/24/2022	ENT TX 3/24/2022	59.2	290.850	7.58	9.21	3.17%	14.41	4.96%	49.56
5/3/2022	PGE (2) 5/3/2022	43.7	3,600.000	18.33	141.55	3.93%	330.49	9.18%	91.80
5/11/2022	LA/ELL 5/11/2022	71.9	3,193.505	8.72	134.71	4.22%	219.71	6.88%	68.80
6/8/2022	TX ERCOT 6/8/2022	89.50	2,115.700	16.96	166.50	7.87%	371.86	17.58%	175.76
6/9/2022	Cleco 6/9/2022	69.45	425.000	12.00	22.46	5.28%	44.04	10.36%	103.62
7/8/2022	Okla OGE 7/8/2022	67.40	761.654	16.92	45.25	5.94%	100.87	13.24%	132.43
7/13/2022	PGE(3) 7/13/2022	102.80	3,900.000	18.86	368.51	9.45%	866.42	22.22%	222.16
8/18/2022	Okla ONG 8/18/2022	58.94	1,354.200	14.66	64.68	4.78%	\$134.66	9.94%	99.44
8/31/2022	Okla PSO 8/31/2022	58.71	696.920	11.72	28.89	4.15%	\$53.14	7.63%	76.25
10/12/2022	Summit 10/12/2022	77.33	81.565	8.89	3.78	4.63%	\$6.12	7.51%	75.07
11/9/2022	Kansas Gas 11/9/2022	85.76	336.000	5.50	12.63	3.76%	\$17.63	5.25%	52.47
11/18/2022	PGE(4) 11/18/2022	67.83	983.362	15.56	59.10	6.01%	\$128.93	13.11%	131.11
12/7/2022	CoServ 12/7/2022	104.08	460.000	16.01	41.09	8.93%	\$88.31	19.20%	191.97
12/7/2022	United Elect. 12/7/2022	124.01	451.695	17.65	50.30	11.14%	\$113.20	25.06%	250.62
12/8/2022	Brazos 12/8/2022	113.67	713.000	17.28	72.33	10.14%	\$161.83	22.70%	226.97
12/9/2022	LA/ENO 12/9/2022	117.71	209.300	8.64	14.46	6.91%	\$23.27	11.12%	111.18
3/9/2023	TX Natl Gas 3/9/2023	60.65	3,521.75	9.58	134.37	3.82%	\$224.22	6.37%	63.67
3/21/2023	LA/ELL 3/21/2023	90.26	1491.485	8.59	75.94	5.09%	\$119.31	8.00%	80.00
4/19/2023	SCE 4/19/2023	68.13	775.419	14.83	43.58	5.62%	\$90.55	11.68%	116.78
6/9/2023	Atmos 6/9/2023	97.68	95.000	5.47	4.03	4.24%	\$5.63	5.92%	59.22
6/21/2023	S. Indiana G&E 6/21/2023	69.71	341.45	10.51	16.08	4.71%	\$28.18	8.25%	82.53
Total 2021-2023 to date							\$3,285		

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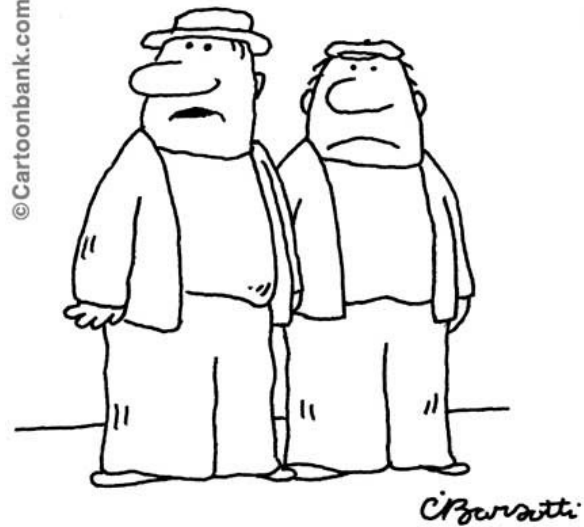
Conclusion

Ratepayer-Backed Bonds are a “sustainable market mechanism” for extraordinary and significant utility costs retiring coal plants and financing environmental mandates.

But “market mechanisms” are not naturally efficient.

Care and active regulatory oversight to ensure do not sacrifice efficiency and fairness..

© Cartoonbank.com



“There, there it is again—the invisible hand of the marketplace giving us the finger.”

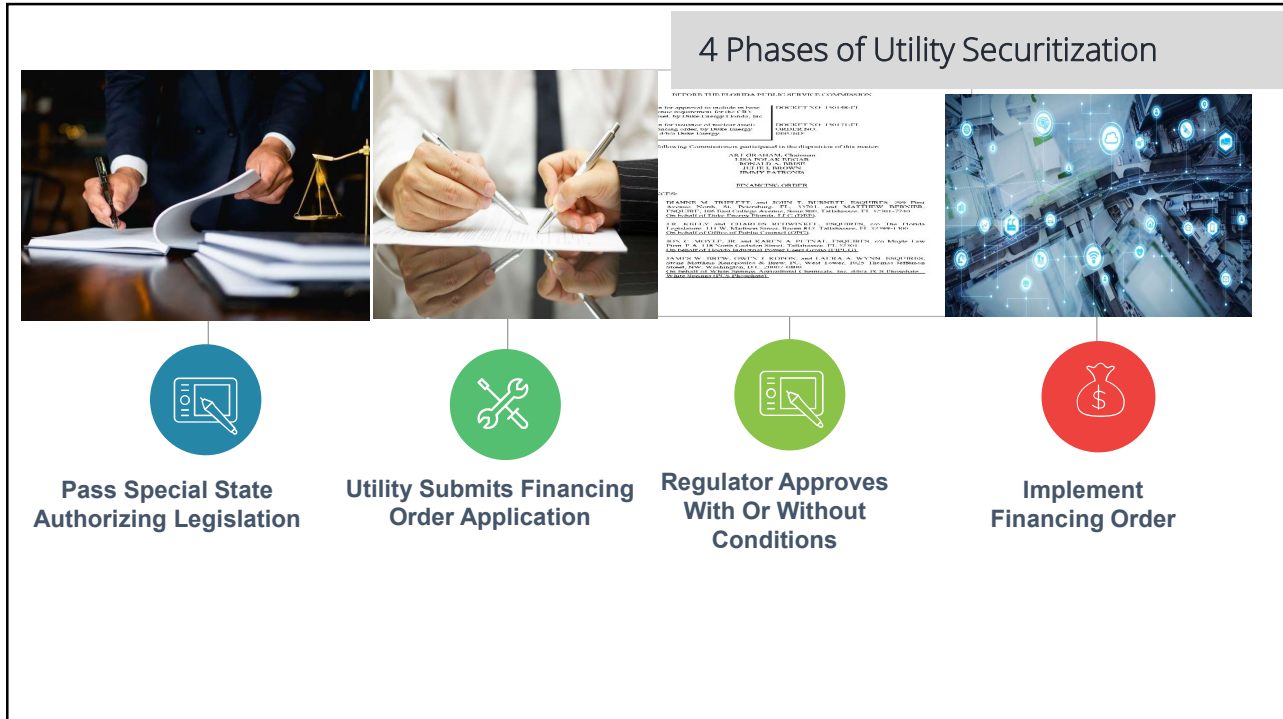
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SABER PARTNERS, LLC
ADVISORS & INVESTORS

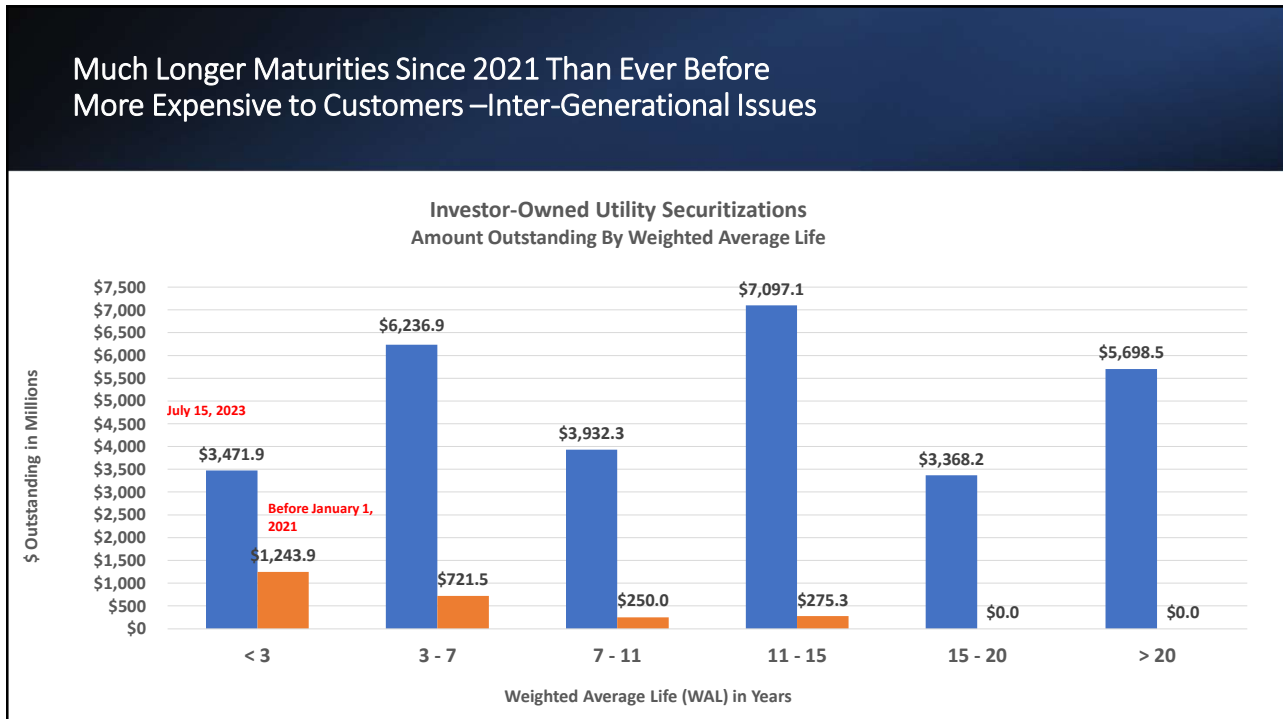
Utility Securitization to the Rescue? Sustainable Low Cost Financing Tool for Power Industry

The slide features a background image of several modern skyscrapers reaching towards a bright blue sky with scattered white clouds. The Saber Partners, LLC logo is centered in the upper portion of the image. Below the logo, the main title is displayed in large, white, sans-serif font against a dark blue gradient background.

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Legislative language that PERMITS Commission to exercise its duties

2005: Florida Storm
Securitization Law + 2019
North Carolina Law

- “[The commission may] include any other conditions that the commission considers appropriate and that are not otherwise inconsistent with this section”

Legislative language that RESTRICTS Commission to exercise its duties

2021: Missouri *Proposed*
Law

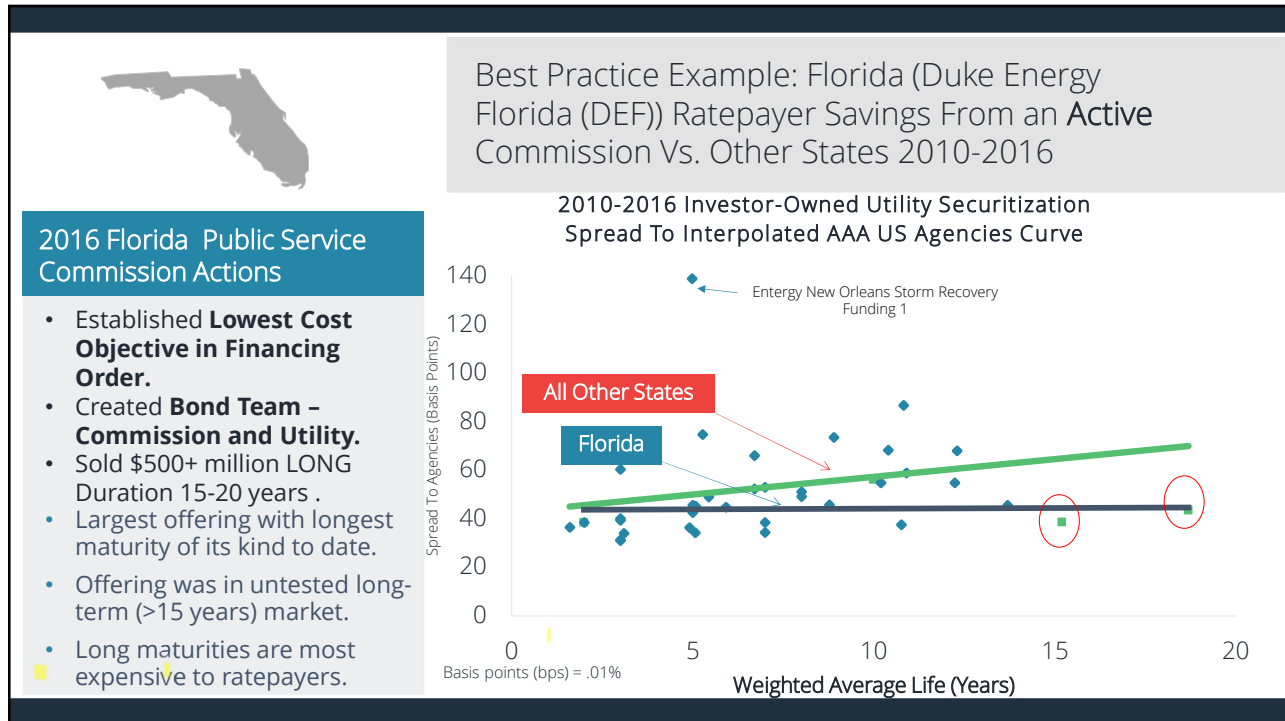
- “The financing order may provide such additional provisions relating to the issuance advice letter process as the commission considers appropriate and as are authorized by this section.”

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Florida 2006 & 2016
Active Commission
Oversight with Utility
Cooperation Have
Produced Better Market
Results

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Regulatory Economic for Financing Order Process

- Complex Utility Affiliate Agreements**
 - Embedded customer risks?
 - Utility negotiates with itself
 - Due diligence
- Quantifying Benefits**
 - Just and reasonable costs to be recovered versus costs of financing
 - "Lower costs" versus "lowest costs"
 - "Maximize present value customer savings" or just "tangible and quantifiable benefit"?
 - What is appropriate discount rate?
 - Inter-Generational issues
- Uncertain Transaction Costs:**
 - Utility seeks approval based cost estimates which can vary significantly by time bonds offered and charges imposed
 - Timing of financing order versus actual bond sale big lag
 - Structure, Marketing and Pricing with Underwriters
 - Approval based on expected vs but what assurance about actual
 - Post-financing order-pre-bond issuance review process
 - Need for Certifications

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Financial Reporting Sustainability

- **Debt ratios.** Impacts of recording securitization proceeds on the Utility's books
- **P&L Impacts.** Presentation of non-bypassable charges recovered from customers (e.g., gross vs.net), P&L profile changes arising from securitization, impairment analysis
- **Tax Treatment.** Characterization of the securitization as taxable / non-taxable – Compliance with IRS Revenue Procedure 2005
- **Depreciation Adjustments.** Related changes (if any) to depreciation profile of plant
- **Disclosure / Sustainability Reporting.** ESG reporting and financial statement disclosure impacts of the securitization for certain assets.

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