Utility Recovery Bond (URB) Market Update

Recent Trends Sounding an Alarm About Affordability

National Association of State Utility Consumer Advocates
June 26, 2025

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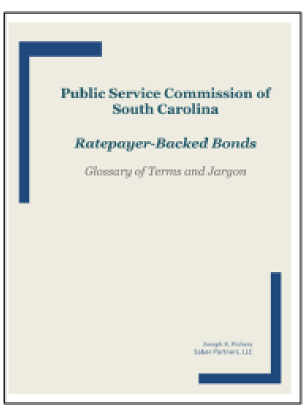
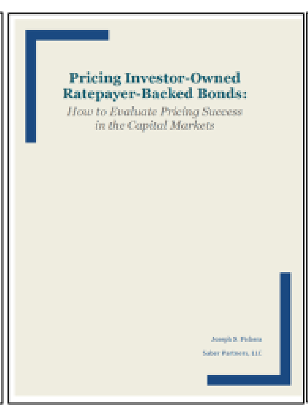
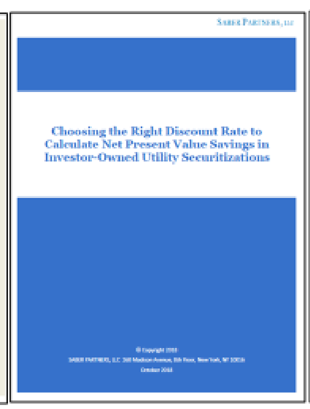
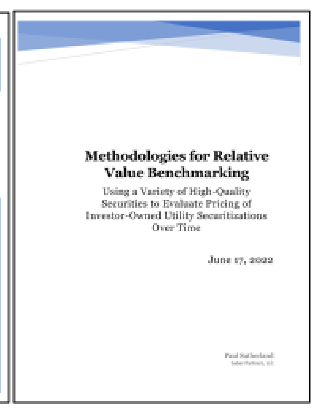
Saber Partners' Publications Available to NASUCA Members


Public Service Commission of South Carolina
Ratepayer-Backed Bonds
Glossary of Terms and Jargon


Pricing Investor-Owned Ratepayer-Backed Bonds:
How to Evaluate Pricing Success in the Capital Markets


Choosing the Right Discount Rate to Calculate Net Present Value Savings in Investor-Owned Utility Securitizations


Methodologies for Relative Value Benchmarking
Using a Variety of High-Quality Securities to Evaluate Pricing of Investor-Owned Utility Securitizations Over Time
June 17, 2022

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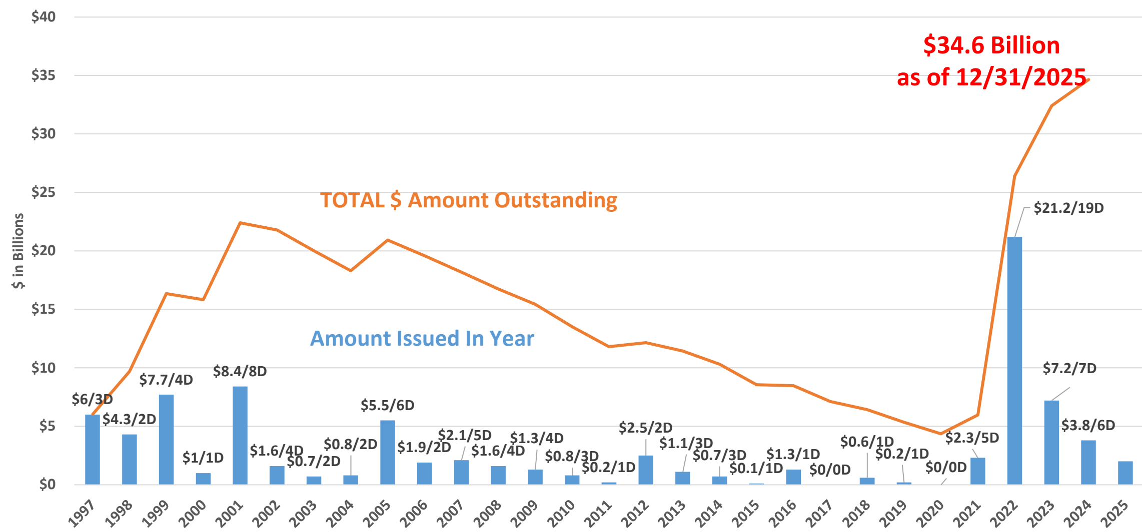
AAA Utility Recovery Bonds Issuance is Increasing

Issued and Outstanding from 1997 - 2025



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 Devel. & Tourism (Hawaii) 2014 which were muni deals.

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108 Deals since 1997; Multiple Corporate Uses

Use of Proceeds	Total Issued	Total Deals
Stranded Costs	$41,000.4	41
Storm Recovery	$23,466.0	35
Deferred Balances Power Costs	$3,282.8	7
Nuclear Plant Retirement	$1,294.3	1
Regulatory Asset	$3,063.6	4
Environmental	$545.2	4
Wildfire Mitigation + Damages	$12,409.5	8
Coal Plant Retirement	$2,204.8	7
Distributed Generation	$150.0	1
Total	**$87,416.6**	**108**

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2 Disturbing Trends

Legislation → Financing Orders

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Legislative Design Foundation Things to Watch

Legislation becoming restrictive and not permissive of active and informed Commission oversight

Commissions losing discretion to protect the public interest by adding conditions concerning financing orders

Embedded 'benefits test' are becoming less meaningful – just "lower" than traditional utility financings

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In Financing Orders, "Bond Teams" Created Utilities, Bankers, Advisors Offering "Lowest Cost Certifications"

But this can be misleading

01

Often "Rubber-Stamp" and circular certifications allowed

02

Simplifying assumptions not backed by independent investigation allowed – no longer a "trust but verify" approach.

03

Due diligence in accordance with professional standards for corporate "fairness opinion" not required

7

Excerpt from Actual PSC FA Contract

Eliminated "fairness opinion" as professional standard

Issuance Advice Letter Activities

- No later than Noon Central Time of the second business day after the submittal date of the Issuance Advice Letter, the Contractor shall submit a letter to Commission Staff opining on whether the structuring, marketing and pricing of the bonds resulted in the lowest charge consistent with market conditions; provided that such letter would not constitute, and should not be construed to constitute, a fairness opinion, as that term is used in corporate finance or otherwise. The letter should also identify any action or inaction that caused the transaction not to achieve the lowest charge. The letter shall explain in detail any reasons why the Contractor recommends that the transaction should not go forward, and any circumstances or remedies that the Contractor believes must occur for the transaction to go forward.

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Excerpt from Actual PSC FA Contract

Circular Certifications

Unlike "fairness opinions," allows FA to rely on information/certificates from "conflicted sources" with no requirement to investigate accuracy

Reliance: The Contractor shall be entitled to rely on any certificate, record, agreement, instrument, document and any other information provided to it by the Commission, Commission Staff and any third- party without independent investigation or verification.

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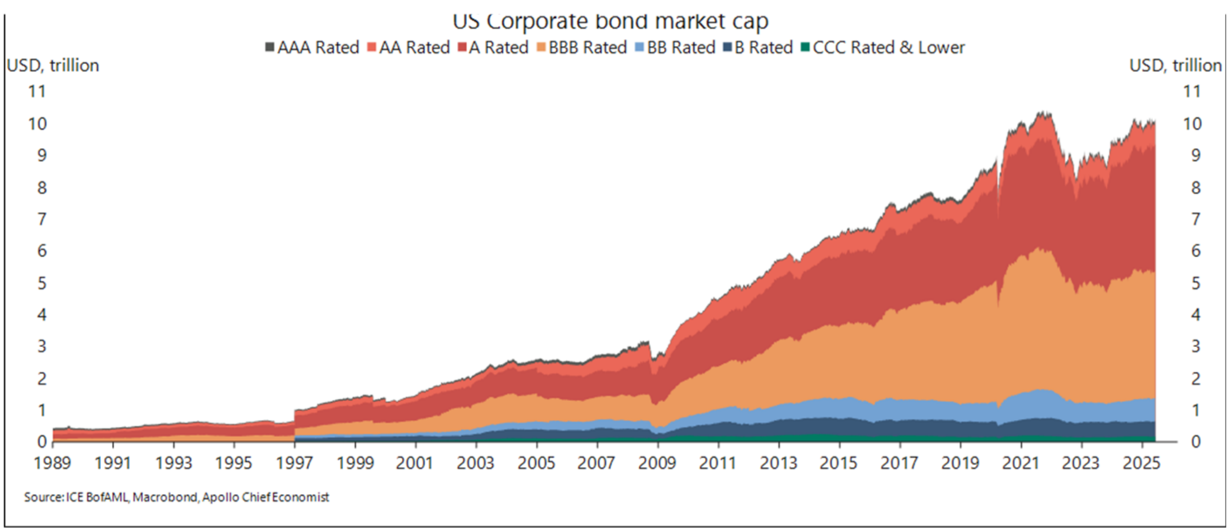
Corporate Bond Market Dominated by Lower Quality Credits – *Which Should Be Good For URBs*



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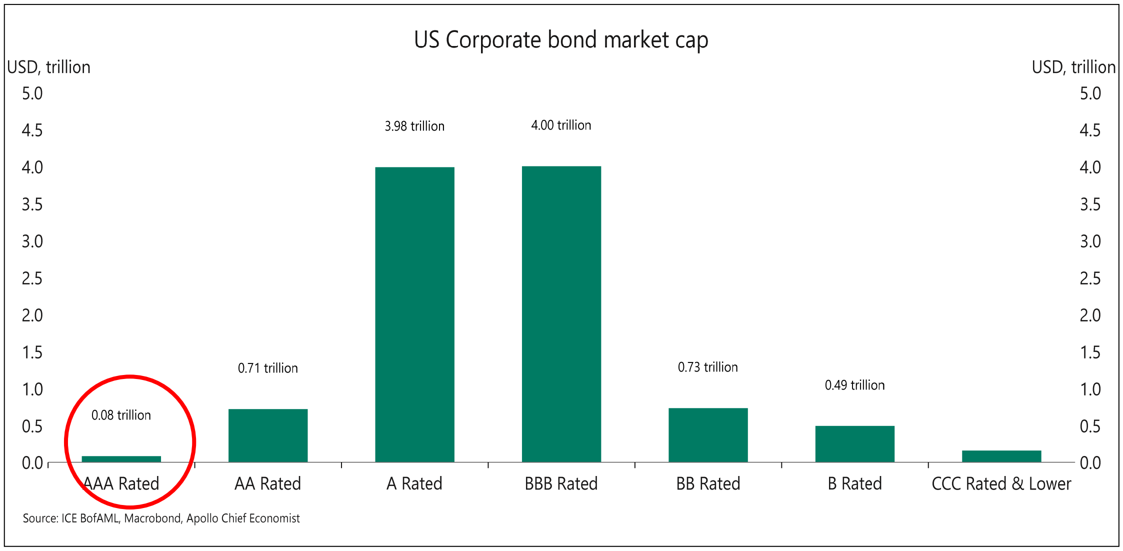

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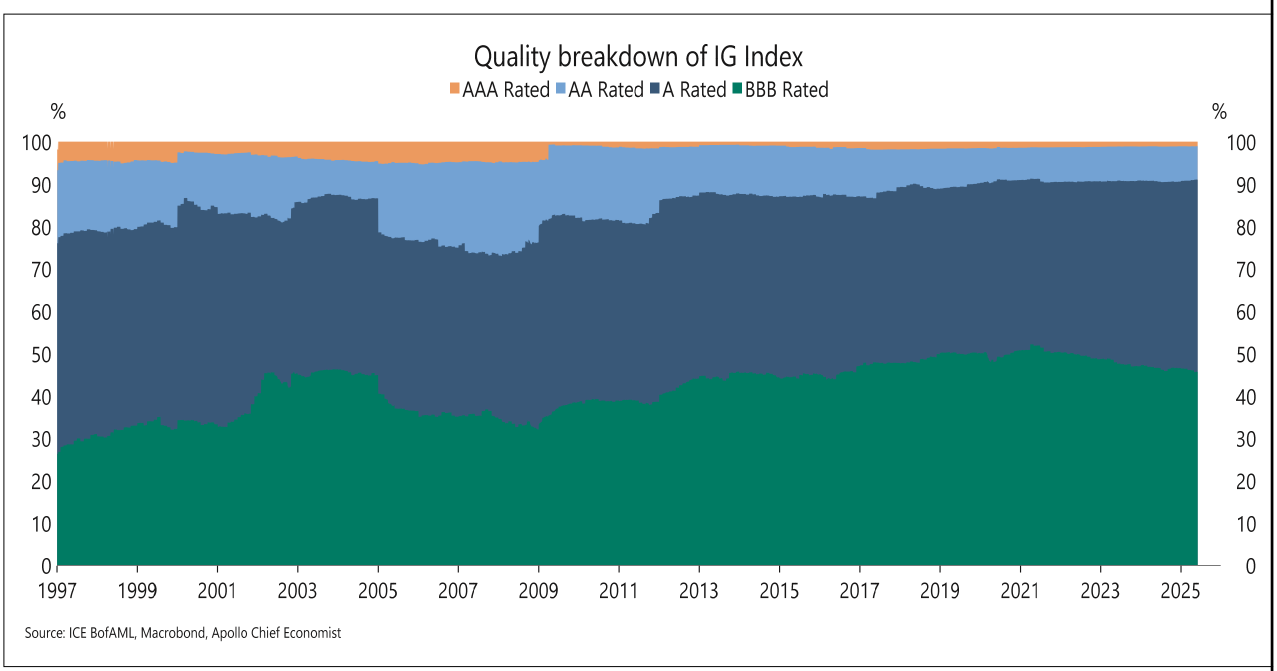

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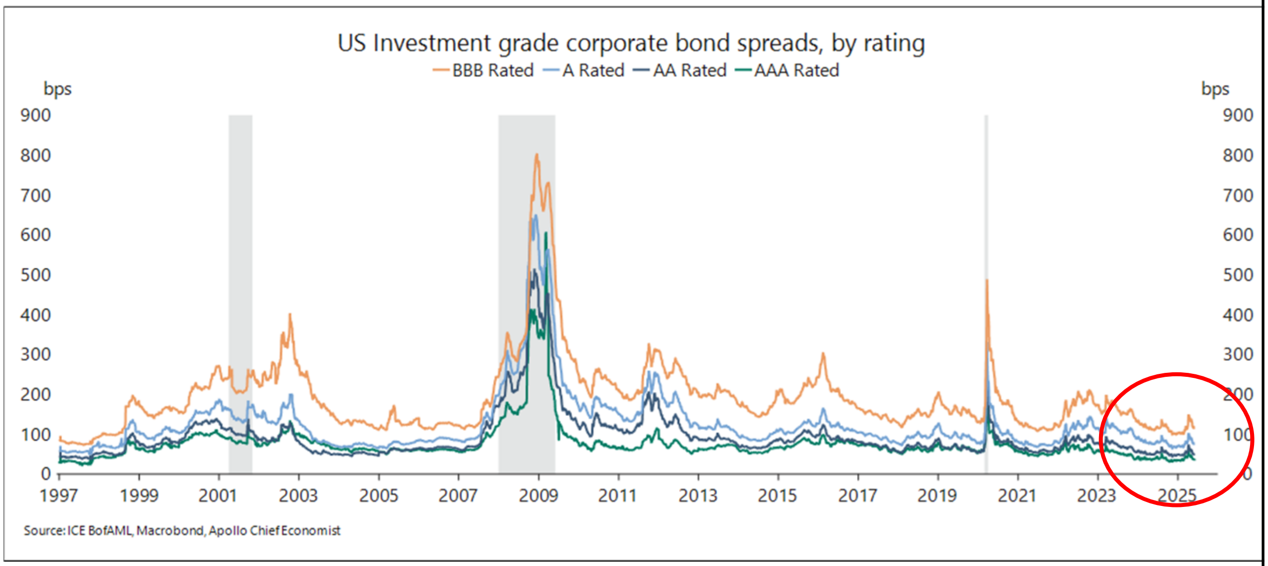
AAA Corporate Bond Credit Spreads (Basis Points over UST) for Scarce AAA Corporate Bond are Low……*Which Should be Good for URBs*



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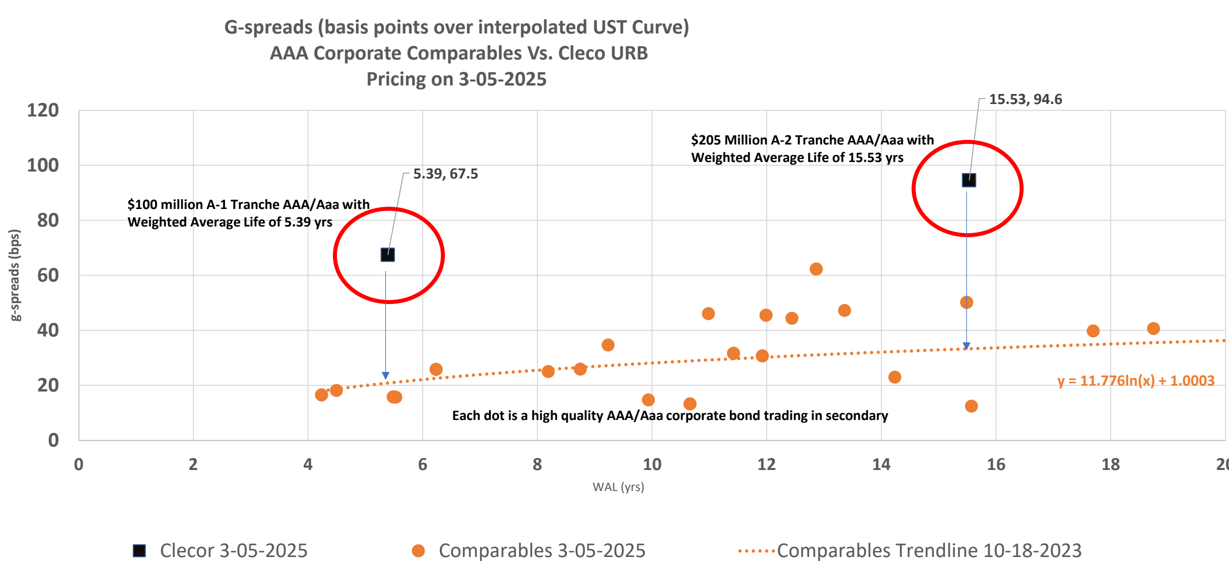
Yet, recent $305 Million Cleco Securitization with Final Maturity = 20 Years

Sold/Priced In Two Tranches Sold at Much Higher Credit Spreads Than AAA Corporates



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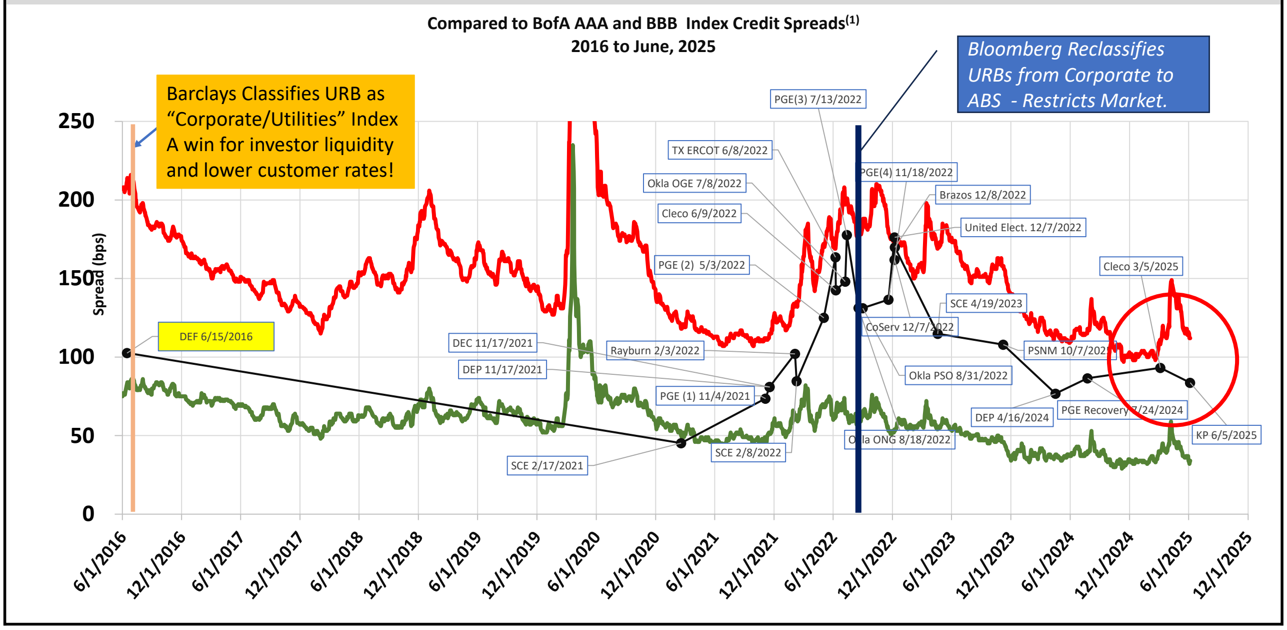
Now URBs are Pricing More like A/BBB than AAA – Overpaying Wall Street

Utility Recovery Bonds with Final Maturities >= 20 yrs – What Happened? Reclassification ?



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Wall Street Celebrating the Mispricing

" CHEAP LONG AAA/Aaa - Published By Citigroup Research Friday January 27, 2023

VIEWPOINT | ABS Weekly

citi

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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Asset-Backed Alert A Green Street News Title

March 15, 2025

Buy-Siders Finding Yield in Utilities

Utility-fee bonds are producing outsize yields for the investors willing to buy them.

Bargain hunters in the sector have been gravitating especially toward paper with terms of 15 or 20 years, seeking fatter returns further out on the yield curve while still locking

Utility-fee bonds are producing outsize yields ... fatter returns

Sumitomo Mitsui Banking Corp. as bookrunners. A single investor placed an order for the entire 15-year tranche, with another buy-sider requesting a $100 million allocation. "If somebody puts in that much in an order, that's a sign that it's cheap," one

The pricing for most recent Cleco deal was comparable to that of a new offering of subprime auto loan bonds with 3 years lives and single A ratings......

Consider that Cleco's Class-A2 notes priced at 80 bp over Treasurys to yield 5.3%. That compares with a 4.6% yield for a comparable tranche of the Pineville, La., company's previous issue, a $425 million offering that priced in 2022 with **Credit Agricole** and JPMorgan as bookrunners.

To be sure, prevailing bond yields are higher than they were three years ago — when the **Federal Reserve** had just begun to raise interest rates in a bid to calm inflation. Still, market participants see a disconnect. The pricing for the most recent Cleco deal was comparable to that of a new offering of subprime auto-loan bonds with three-year lives and single-A ratings, for example.

It also was wide of the 68 bp over Treasurys where 10-year credit card securities with triple-A marks would have priced during the week ended March 6, according to JPMorgan. That premium, seemingly a result of the Cleco notes' longer term, struck one source as excessive given the strength of the under-

the bonds," the source said. "So how much credit risk really is there?"

Liquidity, however, remains a hindrance for demand — in part because of variations in local policies that govern the

base for such securities is extremely concentrated, consisting mostly of insurance companies and asset managers. The resulting lack of competition for the notes, he said, could help explain why their spreads have been slower to move in.

For the latest Cleco deal, for example, there were only 13 unique investors.

That could change if the **SEC** clarifies that utility-fee bonds are not asset-backed securities but corporate bonds. Governors of eight states have been talking to the SEC about the potential move, which would open the offerings to a wider buy-side audience and, as such, would reduce issuing costs. ❖

"Utility-fee bonds are producing outsize yields for the investors willing to buy them. Bargain hunters in the sector have been gravitating especially toward paper with terms of 15 or 20 years, seeking fatter returns further out on the yield curve while still locking in triple-A-rated exposures...."

"... buy-side base for such securities is extremely concentrated.."

"That could change if the SEC clarifies that utility-fee bonds are not asset-backed securities but corporate bonds. Governors of eight states have been talking to the SEC..."

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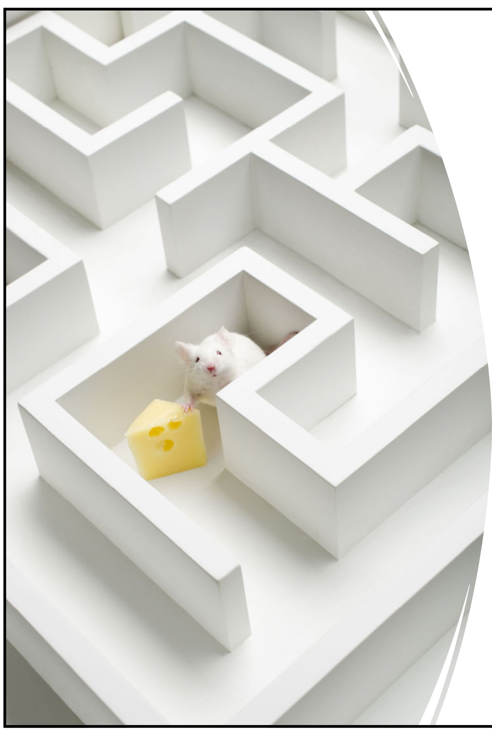

Advocates Must Avoid the "Savings Trap"

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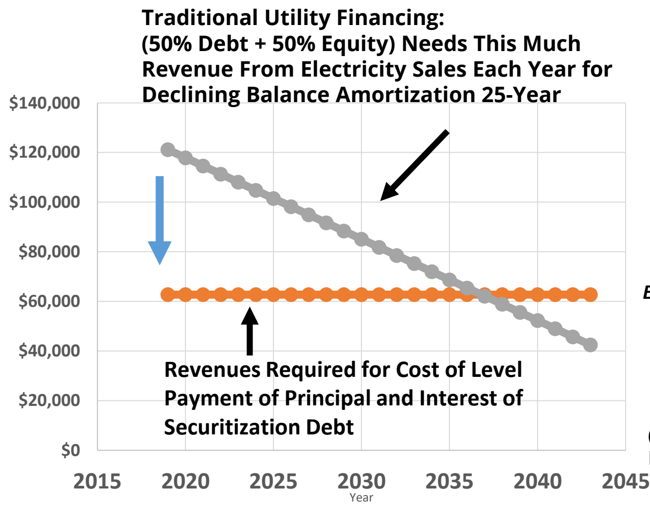
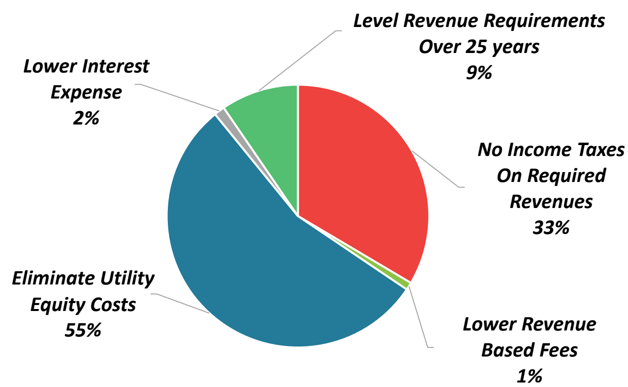
URBs will Always Produce NPV Savings vs. WACC





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

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Savings Trap Issues

- WACC comparisons are misleading for lowest cost /maximum savings test.
- Pricing benchmark should be versus AAA corporate bonds – not utility WACC.
    - “Market-clearing rate” is not necessarily the lowest achievable rate – overpaying Wall Street.
    - Don’t leave $$$ on the table

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ABS vs Corporate Classification

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ABS Classification Unfairly Restricts the Market for URBs Increasing Customer Costs.

'Taking a little from a lot' adds up to many $ millions in extra charges.

Is Wall Street "skimming" customer electric bills?

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SEC Staff Position in 1997

In a formal comment letter to the first utility issuers of URBs (Pacific Gas & Electric) in 1997, SEC staff said what the Governors are saying now:

- "It appears that the servicer is allowed to charge a fee that will vary over time so that payment may be made on the certificates. **This seems much more analogous to a normal corporate debt offering** where a corporation may vary prices for a product such that it may service its stated amount of debt and **unlike a typical asset backed offering where a discrete pool of receivables are securitized.**
- "We remain concerned ….the assets …which secure the notes **will not be converting to cash by their terms."**
- "This is active management of the cash flows coming from the assets included in the pool does not appear to be contemplated by the definition of asset-backed securities …

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SEC Staff Position in 2024-25

- SEC Staff issues "guidance" (which is not a formal rule or regulation) in July 2024 and May 2025 saying that URBs are backed by "self liquidating financial assets"
  - No justification or explanation given
  - Perhaps reacting to Bloomberg class action litigation?
- New guidance defies common sense plus
  - Is not factually correct
  - Is contrary to SEC Staff position in 1997
  - Is contrary to disclosure in $1.2 billion 2016 of Duke Energy Florida Project Finance LLC URBs

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Current Status Governors' Effort

- Governors making final appeal to SEC Chair on a bipartisan issue of "affordability" consistent with SEC mission for "orderly and efficient markets"
- NARUC + NASUCA support efforts; EEI silent.
- Request consistent with President Trump's January 31, 2025, Executive Order *"Unleashing Prosperity Through Deregulation*
- If SEC not responsive, it could be subject to court litigation given recent Supreme Court Chevron decision.

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Thank you for the privilege of your time!

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