

5643 Del Monte
Houston, Texas 77056

May 16, 2022

Chair Peter Lake
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty
Commissioner Will McAdams
1701 N. Congress Avenue
Suite 900
Austin, Texas 78701

Re: Project 52710, Compliance Docket for Docket No. 52322 (Application of Electric Reliability Council of Texas, Inc, For A Debt Obligation Order Pursuant to Chapter 39, Subchapter N, Of the Public Utility Regulatory Act)

Dear Chair Lake and Commissioners:

I am writing to bring to your attention my concerns as a former PUCT Commissioner with the process that the Commission will undertake in dealing with securitization, pursuant to HB 4492, of the ERCOT uplift balances, which the Commission authorized in Docket No. 52322. While the Commission has authorized ERCOT to finance the \$800 million default balance, the financing of the \$2.1 billion uplift balance has not been completed.

As a former PUCT Commissioner, I have a personal appreciation for the complex challenges that each of you are facing in seeking to fulfill your responsibilities to the citizens of the state of Texas in dealing with a complex and diverse set of important policy issues regarding Texas' restructured electricity market, particularly regarding the implementation of the Legislature's directives resulting from Winter Storm Uri. Additionally, my fellow commissioners and I dealt with the similar issues about how to implement the legislative directive that in any PUCT approved securitization the commission had an affirmative duty that "The **commission shall ensure** that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order."

Given that, I want to bring to your attention the attached letter by Professor Martin Luby at the LBJ School of Public Affairs that has been submitted to Texas Public Finance Authority regarding its upcoming Natural Gas Securitization from Storm Uri that will use the similar type of securitization structure that the PUCT pioneered.

Professor Luby, who is an expert in state and local finance with both extensive academic and investment banking experience, details what he sees as problems in the analytical approach applied in the PUCT's securitization process based on the most recent PUCT-approved securitization financing approved for Entergy based on documents filed in Docket 52302. In particular, I would draw your attention to three concerns that Professor Luby raises:

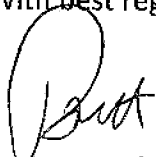
- Lack of Adequate Price Comparisons: Prof. Luby points out that the lack of relative price comparisons to similar bonds means that the Commission may not be meeting the PURA requirement that the bond's interest rate represents "lowest transition bond charges consistent with market conditions...." In other words, the key to meeting the PURA requirement is not the interest rate itself, but a comparison of the interest rate spread (difference between US Treasury rates and the interest rate on the securitization bonds for a given maturity) to similar top-rated corporate securities at the time of pricing. In the \$3 billion of utility securitizations which occurred during my tenure on the Commission, we required that our advisor provide an analysis and assist in negotiating with the underwriters so that these spreads on the bonds we issued are as tight/low as possible. Following my term, the Commission has moved away from this best practice and has looked only at the overall interest rates rather than the credit spreads. This practice has been misleading in a low interest rate environment like the one we've enjoyed over the last 10-15 years. Moreover, the rising interest rate environment we're facing today will show the fallacy of this approach since the Commission will be unable to compare the cost of the bonds to prior issuances.
- Overreliance on the Underwriter: Prof. Luby is concerned about the over-reliance on the bond underwriter to establish pricing and indicates that the PUCT staff's comments that some customers of the underwriters are willing to walk away if the rates and credit spreads were lower may in fact "evince the underwriter's poor pre-marketing and distribution of the transaction" rather than the lowest rates, as the PUCT staff suggests. Once again, during my tenure on the Commission, we required a much wider distribution and marketing plan by the underwriter to ensure broad based competition for the securitizations. We understood that the underwriters were not representing the commission or ratepayers' interest and did not have the PURA mandate. In other words, they were on the other side of the negotiating table and the commission had to take a more active role to protect ratepayers.
- Underuse of the Pricing Advisor: Since my term on the Commission, the Commission has deviated from the best practice cited in Prof. Luby's letter of requiring that its financial advisor issue an unqualified and fully accountable written opinion that the bonds achieved the lowest cost at the time of pricing before the Commission made its final

decision. As we discussed in open meeting, we required an opinion from our outside expert and not staff. The written opinion was to be similar to the principles governing “fairness opinions” required by corporate boards of directors in other financial market transactions. For example, boards of directors hire an independent outside expert to deliver a fairness opinion before approving a transaction as one way of meeting their fiduciary duty to their shareholders. We saw this as analogous to our duties to ratepayers to implement the PURA “lowest” charges directive. In requiring the opinion, we followed the well-established principles about the type of diligence required for independent advisor opinions. We did not allow the opinion to have major assumptions or qualifications so that it became diluted and not a meaningful expert analysis when the Commission had to make the final decision as to whether to allow the bond transaction to proceed or not. Clearly, the Commission could return to this best practice if it chooses to do so.

I am raising these issues with the Commission not to be critical of the Commission or the PUCT staff, which has honorably and honestly served the Commission and the public for many years. I simply want to let the Commission know that there are additional steps that the Commission can and should take, as it has in the past, to ensure that the securitizations meet the statutory standard under PURA and result in the lowest cost to ratepayers.

I sincerely appreciate your service to the state of Texas.

With best regards,

A handwritten signature in black ink, appearing to read "Brett", written in a cursive style.

Brett A. Perlman

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May 12, 2022

Mr. Lee Deviney
Executive Director
Texas Public Finance Authority
300 West 15th Street
Austin, Texas 78701
(512) 463-5544
lee.deviney@tpfa.texas.gov

Re: Texas Natural Gas Securitization Finance Corporation Bond Sale

Dear Mr. Deviney:

I am Martin Luby, an associate professor at the Lyndon B. Johnson School of Public Affairs (“LBJ School”) at the University of Texas at Austin. My research and teaching interests lie broadly in the area of public financial management. I have published extensively in academic venues on the capital markets and in particular the municipal securities market. My experience includes years as a public finance investment banker and municipal advisor to state and local governments. I currently maintain a boutique municipal advisory practice providing financial advice to select governments. I am a Municipal Advisor Series 50-Qualified Representative and Series 54-Qualified Principal.¹

Summary: I am writing this letter to you as a citizen of the state of Texas and natural gas ratepayer who will be impacted by the upcoming Texas Natural Gas Securitization Finance Corporation (“Corporation”) financing authorized by the Texas Public Finance Authority (“TPFA”).²

Based on my review of a bond pricing analysis for a recent Texas electric utility securitization, I am concerned about the successful execution of the Corporation’s upcoming transaction. As described above, this concern is informed by my 25+ year career in the finance industry as a capital markets professional, advisor, and academic researcher.

This letter raises the following three concerns related to a recent Texas utility securitization pricing overseen by the Public Utility Commission of Texas (“PUCT”) of which you should be aware and consider on the Corporation’s upcoming bond transaction. In that transaction, there appeared an absence of three “best practices” including:

¹ See [MSRB-Registered Municipal Advisors with Series 50-Qualified Representatives and Series 54-Qualified Principals](#)

² While I am a Municipal Advisor Series 50-Qualified Representative able to provide “advice”, this memorandum solely expresses concerns and considerations as a citizen and natural gas ratepayer in the state of Texas personally impacted by the Corporation’s upcoming bond sale. No information in this letter should be construed as advice or recommending an action to the TPFA or Corporation. I am not acting as an advisor to the TPFA or Corporation and thus do not have a fiduciary duty pursuant to Section 15B of the Exchange Act to the TPFA or Corporation with respect to the information and material contained in this communication.

- Lack of comparable pricing analysis to justify the pricing to meet the Texas legislature’s standards
- Overreliance on the underwriter’s pricing book to establish lowest cost to ratepayers
- Underuse of the pricing advisor for evidence to support the pricing

Background: First, I commend you for creating the Corporation (as authorized by the Texas Legislature) and pursuing a securitization financing. Winter Storm Uri affected millions of Texans and absent the securitization, millions of ratepayers like me would be on the hook to immediately repay the huge increase in natural gas prices incurred during the storm. There is no doubt this financing tool will help alleviate ratepayers’ financial burden from the storm by spreading the cost over years hopefully at the lowest financing cost possible.

According to public information, the proposed TPFA securitization financing contemplates the sale of \$3.4 billion in taxable bonds at some point this summer. This would be one of the largest bond issues in Texas history and perhaps the largest in the municipal bond market this year.³

The financing will garner much interest from municipal market participants and should be closely watched by utility ratepayer advocates. Based on your underwriter request for proposal posting, you have selected Estrada Hinojosa as financial advisor to the transaction.⁴ I also commend you for this selection since I see that Paul Jack, my colleague at the LBJ School and a very well-regarded municipal finance professional, will serve as the primary financial advisor contact to the Corporation.

The challenge in matters of public policy is often not in the “policy” itself but in its “implementation.” My letter focuses on the upcoming Corporation’s pricing of this novel and historic debt sale. What sparked my interest in your upcoming bond pricing was a publicly available filing dated March 28, 2022 (“Filing”) sent in a memorandum to the PUCT commissioners by PUCT staff.⁵ The Filing related to the March 24, 2022 securitization pricing of \$290 million in AAA/Aaa-rated Entergy Texas Restoration Funding II LLC bonds (“2022 ETR Bonds”) authorized by PUCT.

Similar to the Corporation’s proposed transaction, the 2022 ETR Bonds used a securitization bond structure to finance ETR system restoration costs related to Hurricane Laura and Delta in 2020 and Winter Storm Uri in 2021.⁶ The Texas Public Utility Regulatory Act (“PURA”) and PUCT’s financing order in Docket No. 52302 required the Filing by the PUCT designated representative in the process.

Most germane for the purposes of this letter, PURA 39.301 states *“The Commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order.”* H.B. 1520 demands a similar bond pricing goal for TPFA on its upcoming \$3.4 billion securitization requiring *“The Authority...effect the financing at the lowest practicable cost.”*⁷

However, I was surprised by the analysis used in the Filing. Based on the information within it, I am not convinced that PURA requirements were met on the 2022 ETR Bonds. This is not an immaterial matter.

³ See [Team being tapped for \\$3.4 billion Texas natural gas securitization | Bond Buyer](#)

⁴ See [Gas Securitization Underwriter Request for Proposal Final Updated 4.20.22.pdf \(state.tx.us\)](#)

⁵ See http://interchange.puc.texas.gov/Documents/52302_47_1196046.PDF (also as an enclosure to this letter)

⁶ See [Entergy Texas Restoration Funding II, LLC, Senior Secured System Restoration Bonds, Series 2022-A -- Moody's assigns \(P\)Aaa \(sf\) to Entergy Texas, Inc.'s System Restoration Bonds \(yahoo.com\)](#)

⁷ See [Texas-2021-HB1520-Enrolled \(legiscan.com\)](#): “The Authority, consistent with this subchapter and the terms of the financing order, shall determine the methods of sale, types of bonds, bond form, interest rates, principal amortization, amount of reserves or capitalized interest, and other terms of the customer rate relief bonds that in the Authority’s judgment best achieve the economic goals of the financing order and effect the financing at the lowest practicable cost.”

Even very small changes in bond pricing can result in substantial costs or savings to ratepayers. For example, the value of just a one basis point (0.01%, one one-hundredth of a %) improvement in pricing on a \$3.4 billion financing with a maturity of 5, 15 and 30 years are approximately \$1.57, \$3.81 and \$5.26 million, respectively.⁸ That is a substantial cost to ratepayers as a whole for even the smallest of price changes.

Listed and discussed below are either flaws in the analytical approach used by the PUCT staff or information missing in the Filing necessary for the PUCT commissioners to draw proper financial conclusions on the bond sale. I also include suggestions for how the PUCT could have improved its bond pricing process and analysis.

Recognizing the available public information may not be all information underlying the Filing, the purpose of this letter is not to condemn the work on the 2022 ETR Bonds by PUCT staff, who I know have ethically and tirelessly served the commission for many years. Rather, it is to urge the Corporation and TPFA to address these concerns on its upcoming securitization and employ “best practices.” This will ensure that Texas natural gas ratepayers receive the largest rate relief benefit from this historic transaction.

Concern 1 – Lack of Comparable Pricing Analysis: The first and perhaps most glaring issue in the Filing relates to its comparable pricing analysis or lack thereof. A “comparable pricing analysis” is a “best practice.” It looks at the pricing of a new bond issue in relation to other bond issues of similar credit quality and maturity using standard financial principles of analysis.

The Filing only identifies the absolute weighted average interest rates of the 14 Texas securitizations for electric investor-owned utilities sold to date (2001-2022). These absolute rates ranged from 2.23% to 5.83%. The weighted-average interest rate of 3.61% for the 2022 ETR Bonds was lower than ten and higher than three previous bond issues.

On an absolute pricing level, the financing compared favorably to most (i.e., ten) of the previously sold financings. Moreover, assuming a 7.73% non-securitized rate of return allowed for the utility if it financed the costs directly, it is reasonable to conclude, as the Filing does, that this financing will “result in a dramatic reduction in interest charges that, absent securitization, customers would pay on the system restoration costs.”⁹

However, nothing in this analysis provides information on whether the 3.61% interest rate results in the legislature’s mandate of the “lowest transition bond charges consistent with market conditions and the terms of the financing order.” The 3.61% interest rate compared to the higher rates carried by the earlier bonds was likely driven by the overall much lower level of US Treasury interest rates in the current market compared to previous time periods.

So, in terms of *absolute* pricing levels, from this information we can only conclude that this financing achieved a lower borrowing cost than 10 of the 13 previous bond sales of various maturities. This does not provide any information on the pricing levels of the 2022 ETR Bonds *relative* to other comparable bonds sold in the market at the same time. This is the primary factor in determining whether the PUCT and ETR received the lowest borrowing cost in the *current* market given its financing structure, which is “best practice” among financial market professionals.

⁸ The estimate assumes 3% coupon rate par bond with a 1 basis point (0.01%) reduction in yield to 2.99% for the 5-year maturity, 4% coupon rate par bond with a 1 basis point (0.01%) reduction in yield to 3.99% for the 15-year maturity, and 5% coupon rate par bond with a 1 basis point (0.01%) reduction in yield to 4.99% for the 30-year maturity.

⁹ The Filing does not detail its assumptions in using the 7.73% rate. For the purposes of my letter, I assume this is the proper rate.

Put in layman’s terms, the Filing’s stated pricing benefit conclusion is akin to two similarly credit-worthy homeowners with the same current mortgage interest rate, say 5%, refinancing their loans on the same day at the same term to maturity with one homeowner refinancing at 4% and the other at 3%. Obviously, both homeowners would realize interest cost savings over the current loan but the 3% homeowner would achieve double the savings compared to the 4% homeowner. If you were the 4% homeowner, although better off than before the refinancing, you certainly would not feel you achieved the “lowest interest charges consistent with market conditions and terms of the financing.” You would draw that conclusion by simply observing the lower interest rate received on the identical mortgage loan obtained by the other similarly credit-worthy home loan borrower in the market that day.

It is the same case when evaluating the pricing of municipal and corporate bonds. The only way to make such conclusion is to observe the pricing of similar bond credits with similar credit quality in the market on or about the same day. This could be done by using secondary market bond trading data or primary market sales by another issuer, if such comparable primary market offerings occur.¹⁰ You would establish “similar” (i.e., relative value) comparables based on the bonds’ credit rating, term to maturity, tax status, etc. of the “benchmark” securities.¹¹ Now, this is not easy. There is reasonable debate about which comparables are truly “comparable.” But the “best practice” is to do a rigorous comparables analysis with a transparent and well-reasoned explanation of the benchmarks used.

Given the ETR Bonds AAA/Aaa credit rating, taxable status and strong security pledge of rate-backed bonds on an essential commodity (electricity) sold by a utility like ETR, one could make an argument for AAA/Aaa corporate bonds as the appropriate benchmark. However, an issue in using corporates as a comparable is there are currently only two AAA/Aaa rated corporates issuers (Johnson and Johnson and Microsoft), rated as such by the top two credit rating agencies (Standard and Poor’s and Moody’s). Quasi-government securities (e.g., agency securities) can also serve as comparables but are not perfect given their federal government ownership structure. A further complication is that utility ratepayer backed bonds may not trade as frequently as other corporate and federal government securities so there may be a liquidity premium (i.e., higher interest rate spread required) on these bonds. However, it is unclear the amount, if any, of such premium given the very high credit quality and “buy and hold” nature of the 2022 ETR Bonds.

So, while there may be debate as to what the right comparables are, it is not controversial but rather based on generally accepted securities market principles and “best practices” to use comparable bond market analysis to make any claims on whether bonds are priced fairly and at the lowest cost to the ratepayer. The PUCT staff may have done such a rigorous analysis, but it is not apparent from the Filing that was submitted.

The PUCT should have intentionally employed a well-reasoned and transparent relative market comparable analysis on the 2022 ETR securitization to establish the bonds were priced fairly and in accordance with the PURA mandate for the “lowest transition charges” to the ratepayer.

Concern 2 – Overreliance on the Underwriter’s Pricing Order Book to Establish Lowest Cost to

¹⁰ “Secondary market” refers to sales among investors of the bonds after the initial issuance of the Bonds. “Primary market” refers to the initial sale generally from issuers to the underwriter for distribution to investors.

¹¹ See [GAO-12-265, MUNICIPAL SECURITIES: Overview of Market Structure, Pricing, and Regulation](#) stated the following: Municipal broker-dealers generally determine the prices at which they are willing to trade by making relative assessments of a security’s market value, drawing on various sources of information and incorporating their compensation for facilitating the trades. Several factors that broker-dealers we spoke with identified as relevant to their pricing determinations included (1) recent post-trade price information on same or comparable securities, (2) available pretrade price information on the security or comparable securities, (3) the characteristics and credit quality of the security, (4) relevant market information, and (5) the cost of trading the security.

Ratepayers: In fairness to PUCT staff, their comparable analysis described above with respect to the interest rates on previous electric utility securitizations was not the only way they tried to establish the “lowest transition bond charges...” were achieved. Rather, the Filing explicitly relies on the status of the underwriter’s order book for the bond pricing conclusion. This is my second concern about their analysis. The Filing includes the following footnote (emphasis added):

“Goldman Sachs received written confirmation from certain **key investors** that further “tightening” (i.e., lowering) of the interest rate levels would likely result in those investors reducing or withholding their orders. This could have created a situation in which the level of demand for the securities would have been insufficient to sell the entirety of the issuance. In my opinion, **this information demonstrates unambiguously that the pricing levels of the bonds were precisely consistent with the provision of PURA 39.301** that states “The commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order.”

This pricing analysis approach is problematic for two reasons.

First, the fact that some “key investors” had an outsized influence over whether the underwriter could sell the bonds is not “unambiguous” evidence the lowest cost and PURA standard were achieved according to market best practices. Rather, the sizeable influence of select investors on the sale could also have been due to how the bonds were marketed. Specifically, it could be evidence of the underwriter’s poor pre-marketing and distribution of the transaction which unfortunately gave a few investors the ability to “make or break” a portion of the issue. Indeed, a verified broader and more robust pre-marketing plan might have led to an expanded market, greater competition, and additional investors willing to accept lower rates. This would have diminished the monopoly power of these “key investors.” It’s the same principle when selling one’s house. A broader marketing effort with multiple listings and robust marketing by the broker usually gets more bids and results in negotiating the best price upon sale. If the broker gets many bids, when one raises the sale pricing one is not held hostage to a single buyer.

Second, assuming the issue was marketed and distributed broadly, the fact that a portion of the issue might have to be bought by the underwriter reflects the risk they take on in agreeing to underwrite bonds. After all, the PUCT and ETR hired an *underwriter* not just a *broker*. Underwriters are specifically compensated for absorbing the risk that they may be unable to resell all the bonds to investors at a specified time by using their capital.¹² Brokers simply take orders and risk nothing. This is particularly important and needed for an issuer like ETR (and TPFA) in a volatile market as was apparently the case as noted in the Filing. If underwriters needed to take a portion of the issue into their inventory at an interest rate not attractive to some specific “key investors” at a specific time but supported as to fair value by a comparable pricing analysis, this means that the PUCT and ETR ratepayers realize the lowest interest cost than if they just accepted the interest rate demanded by the few “key investors.”

Thus, in summary, pushing (i.e., actually negotiating with) underwriters up to but not including the point where some investors, even so-called “key investors”, *may* drop out due to further price “tightening” 1) is not alone and on its face evidence of the lowest possible price being received on the sale and 2) may not actually result in the issue realizing the “lowest transition bond charges...” as required by PURA. Ratepayers may be losing substantial sums of money even on small bond transactions.

The PUCT should have significantly relied on comparable pricing analysis and not exclusively the reported state of the underwriter’s order book to establish whether the bonds achieved the lowest possible cost.

¹² See [\(PDF\) Underwriting Brokerage and Risk in Municipal Bond Underwriting \(researchgate.net\)](#)

Concern 3 – Underuse of the Pricing Advisor: The final concern involves PUCT staff providing a formal opinion on PURA 39.301. The Filing states the following (emphasis added):

“Serving in the role of the Commission’s designated representative, and as required by the provisions of ordering paragraph 27 as indicated above, I am informing you and ETR that **it is my opinion** that the structuring, marketing, and pricing of each series of the securitized bonds described in the issuance advice letter that ETR filed on March 25, 2022 comply with the requirements of PURA and the Commission’s financing order in Docket No. 52302.”

While it appears PUCT staff followed the statute and financing order in providing an opinion on the 2022 ETR Bonds, it raises the question of whether this opinion can be adequately provided by staff who, with due respect to their expertise in utility finance regulation, are not experts in the dynamic capital markets. Managing capital market financings is only part of PUCT staff’s job duties. Moreover, if the PUCT is like most other government agencies, it is a relatively small and infrequent part of the finance staff’s work portfolio. As such, PUCT staff likely do not regularly participate and monitor the capital markets. This begs the question of whether PUCT staff has the requisite expertise to offer a bond pricing opinion regardless of its statutory responsibility.

The Filing includes a paragraph thanking the PUCT’s pricing advisor, Drexel Hamilton, for providing “independent perspective, expertise, and in-depth knowledge of the capital markets...” So, clearly PUCT staff relied on the expertise of Drexel Hamilton in issuing their opinion for the Commissioners to make the determination whether the pricing complied with PURA.

So, why not go a step further and require Drexel Hamilton to provide formally an opinion certifying - without material qualifications - that based on its expertise and analysis the 2022 ETR Bonds realized “the lowest transition bond charges consistent with market conditions and the terms of the financing order”? This is a common practice in many financial market transactions.¹³

Such opinion would have incentivized Drexel Hamilton to work as hard as possible in trying to achieve the best financing terms for the PUCT and ETR while providing robust and documented comparable market data supporting its pricing conclusion. Presumably, such “lowest cost” opinion (with similar due diligence standards associated with widely used fairness opinions in other financial markets transactions) would provide empirical analysis that addresses my first two concerns related to the need for relative market value pricing comparisons and underwriter performance/risk-taking.

The PUCT should have required its pricing advisor as part of its services to provide a “lowest cost” opinion without any material qualifications on the pricing of the 2022 ETR Bonds. To the extent such advisor was unwilling to provide such formal opinion as part of its financial advisory services, the PUCT should have hired a firm that would either replace or supplement the work of the hired pricing advisor.

Conclusion: As stated above, my concerns about the 2022 ETR Bonds may be mitigated by other information retained but not yet made publicly available by PUCT finance staff. I am not in possession of such information, nor have I requested it. So, this critique is contingent on whether such information and analyses exist. The purpose of this letter is not to “beat up” on the hardworking and dedicated PUCT staff but merely to “flag” to the TPFA possible bond pricing issues on a similar recent Texas utility securitization financing. These issues are not unique to the PUCT or TPFA. The bond underpricing concerns outlined above have plagued past financings of many other governments and regulators.¹⁴

¹³ See [Are fairness opinions fair? The case of mergers and acquisitions - ScienceDirect](#)

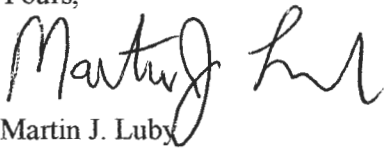
¹⁴ See [When Wall Street Flips Municipal Bonds, Towns and Schools Pay the Price - WSJ](#)

The TPFA is one of the most reputable and sophisticated bond issuers in the country. I am grateful for the high bar it has set on its previous financings. Thus, I do not assume that any of my insights are “earth shattering.” I fully expect the critique and approaches raised in this letter to be addressed by the Corporation and its financial advisor as part of their typical due diligence and bond pricing services.

I raise these concerns solely to encourage transparency and as thorough a bond pricing analysis as possible. This analysis should be informed by financial principles and accepted “best practices” among capital markets professionals. This is particularly important now given the substantial attention the upcoming Corporation financing and other similar financings addressing Winter Storm Uri costs will receive and how many Texas residents will be affected by their implementation. As such, I hope you receive my concerns in the constructive spirit intended.

I welcome any questions you may have and am more than happy to discuss further with you.

Yours,

A handwritten signature in black ink, appearing to read "Martin J. Luby". The signature is fluid and cursive, with a long horizontal stroke at the end.

Martin J. Luby
Associate Professor

Enclosure:

Public Utility Commission of Texas Filing Receipt 52302-47 – March 28, 2022

cc: Public Utility Commission of Texas

Public Utility Commission of Texas

Memorandum

TO: Chairman Peter M. Lake
Commissioner Will McAdams
Commissioner Lori Cobos
Commissioner Jimmy Glotfelty

FROM: Darryl Tietjen, Rate Regulation Division

DATE: March 28, 2022

RE: Docket No. 52302—*Application of Entergy Texas, Inc. for a Financing Order*

Securitization Pricing

On Thursday, March 24, 2022, Entergy Texas, Inc. (ETI) completed the pricing of \$290.85 million of system restoration bonds authorized by the Commission in its January 14, 2022 order for this docket. The pricing culminated approximately three months of various activities that included the development of the appropriate structure of the bonds, working with the major credit rating agencies, preparing all necessary legal documentation, and developing and distributing marketing presentations. Goldman Sachs and Citi served as bookrunners for the transaction (Goldman Sachs was the structuring lead), with Regions Securities and R. Seelaus Securities serving as co-managers. Over the last several days, during the final stages of the marketing efforts leading up to the pricing, I and members of Drexel Hamilton, LLC (the Commission's pricing advisor) participated in multiple market-status calls with the investment banks and representatives of ETI.

I am pleased to inform you that the pricing levels of this transaction were very favorable to Texas ratepayers, as the final terms resulted in a weighted-average interest rate of 3.61%. I would emphasize here that this low financing rate was achieved notwithstanding a current marketplace that reflects an appreciable degree of uncertainty and volatility related to a variety of economic and geopolitical factors.

For your reference, the table below lists all 14 Texas securitization transactions for electric investor-owned utilities to date¹ and their overall interest costs:

¹ Nine of the 14 securitizations have been for recovery of stranded costs and other true-up balances; five have been for recovery of system restoration costs. Please note that the list of securitization transactions shown in this memo does not include the \$800 million financing approved in Docket No. 52321, *Application of Electric Reliability Council of Texas Inc. for a Debt Obligation Order Pursuant to Chapter 39, Subchapter M, of the Public Utility Regulatory Act*.

<u>Transaction</u>	<u>Amount (millions)</u>	<u>Overall Interest Rate</u>
Reliant 2001	\$749	5.37%
CPL 2002	\$797	5.80%
TXU 2003	\$500	4.84%
TXU 2004	\$790	4.88%
CenterPoint 2005	\$1,851	5.18%
AEP 2006	\$1,740	5.19%
Entergy 2007	\$330	5.83%
CenterPoint 2008	\$488	4.78%
Entergy 2009	\$546	3.88%
CenterPoint 2009	\$665	3.72%
CenterPoint 2012	\$1,695	2.50%
AEP 2012	\$800	2.28%
AEP 2019	\$235	2.23%
ETI 2022	\$291	3.61%

Below are some additional details on this ETI transaction:

<u>Tranche</u>	<u>Size</u>	<u>Avg Life (Yrs)</u>	<u>Avg Rate</u>
A1	100,000,000	3.02	3.051%
<u>A2</u>	<u>190,850,000</u>	<u>9.97</u>	<u>3.697%</u>
Total	290,850,000	7.58	3.609%

The securitized rates achieved in this financing will result in a dramatic reduction of the interest charges that, absent securitization, customers would pay on the system restoration costs. For ETI, the non-securitized rate of return on these system restoration costs would be 7.73%, and over the life of the bonds, the reduced interest charges from the securitization of these costs will result in savings for Texas ratepayers of approximately \$108 million.

Notification of Compliance

As required by ordering paragraph 6 and findings of fact 34 and 37 in the financing order, on the day after pricing (that is, on Friday, March 25, 2022) ETI filed with the Commission its issuance advice letter detailing the final structuring and pricing terms of the bond issue. The order additionally requires in ordering paragraph 27 that:

The Commission's designated representative must notify Entergy Texas and the Commission no later than 12:00 p.m. central standard time on the business day after the Commission's receipt of the issuance advice letter for each series of system restoration bonds whether the structuring, marketing, and pricing of that series of system restoration bonds comply with the criteria established in this Order.

Serving in the role of the Commission's designated representative, and as required by the provisions of ordering paragraph 27 as indicated above, I am informing you and ETI that it is my opinion that the structuring, marketing, and pricing of each series of the securitized bonds

described in the issuance advice letter that ETI filed on March 25, 2022 comply with the requirements of PURA and the Commission's financing order in Docket No. 52302.²

Possible Commission Action

I also need to bring to your attention certain provisions of finding of fact 37, which, consistent with the Commission's financing orders in previous securitization dockets, states:

The initial system restoration charges and the final terms of the system restoration bonds set forth in the issuance advice letter must become effective on the date of issuance of the system restoration bonds (which must not occur before the fifth business day after pricing) unless before noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Order.

Based on the provisions cited above, unless the Commission issues an order on or before noon on Wednesday, March 30th (which is the fourth business day after pricing) that the proposed issuance does *not* comply with PURA and the requirements of the order, the transaction will close on Thursday, March 31st, and the bonds will be issued. The terms of the financing order provide that the charges and terms become effective automatically unless otherwise acted upon by the Commission.

Accordingly, if the Commission has no reason or cause to stop the transaction, the Commission is not required to take any specific affirmative or "positive" action for the bonds to be issued and the system restoration charges to begin.

Drexel Hamilton

Finally, I would like to recognize the contributions made to this transaction by the Commission's pricing advisor, Drexel Hamilton. Jeremy Traska was my main point of contact with Drexel, and he and John Kerin participated in all the key stages of this bond issuance. They provided independent perspective, expertise, and in-depth knowledge of the capital markets, and their participation and ideas during the final days of the pricing process were invaluable. Additionally, at key junctures during the different stages of the transaction, Drexel participated in conversations with Goldman Sachs and provided independent assessments in a timely and constructive manner. Ultimately, I felt that Drexel's involvement in the decision-making processes was extremely effective and played a significant role in achieving very favorable interest rates for these securities.

I am available to answer any questions you may have regarding this transaction.

² I would note here that, during the marketing and pricing process for this transaction, Goldman Sachs received written confirmation from certain key investors that further "tightening" (i.e., lowering) of the interest rate levels would likely result in those investors reducing or withdrawing their orders. This could have created a situation in which the level of demand for the securities would have been insufficient to sell the entirety of the issuance. In my opinion, this information demonstrates unambiguously that the pricing levels of the bonds were precisely consistent with the provision of PURA § 39.301 that states "The commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order."



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Received - 2022-03-28 09:30:44 AM

Control Number - 52302

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Received - 2022-05-16 10:40:55 PM

Control Number - 52710

ItemNumber - 2