

Louisiana Public Service Commission

RFP to Provide Advisory Services

RFP Number: 24-07

Docket Number: U-37213

Respondent: Drexel Hamilton, LLC

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Proposal for Consulting Services

Financial Advisor to the **Louisiana Public Service Commission**

RFP: 24-07

Docket No.: U-37213

Respondent: Drexel Hamilton, LLC

Federal EIN: 20-8032934

Date: July 19, 2024

Description

Drexel Hamilton is a full-service financial services and advisory firm that focuses on corporate, municipal and securitization finance with a strong concentration in the power & utilities sector.

Drexel Hamilton and its team of professionals have strong backgrounds in many aspects of finance, securities law and regulation matched with long transactional track records spanning their careers.

As has been communicated, the **Louisiana PSC** seeks a financial advisor to consult staff and provide expert advice on all aspects of the securitization process. The advisory team at Drexel Hamilton feels it has the experience and requisite knowledge to fulfill these and all other related duties successfully due to their long track record in utility securitizations and knowledge of all aspects of the legal and structuring tasks that go along with executing these unique transactions.

Throughout their careers at Drexel Hamilton and previous firms, team members have collectively worked on **18 separate utility securitization transactions** spanning the last 10+ years with the most recent mandate closing in **April 2024**. Additionally, Drexel Hamilton has recently signed a contract with the **Public Utilities Commission of Texas (PUCT)** to act as its Pricing Advisor for a

proposed securitization in that state. Given this transactional track record, team members feel they have had the broadest and most up-to-date experience with the product and a firm perspective on what it takes to complete a successful transaction in the present market environment.

Beyond their knowledge and experience, the team carries a high level of professionalism and an adaptive nature that always seeks the absolute best possible results for its clients. The firm's professionals have earned the respect of many in the finance, legal, corporate and regulatory communities which has translated into a steady flow of business and new opportunities which continues to this day.

Advisory Team Professionals

The advisory team at Drexel Hamilton is comprised of financial services and regulatory professionals who have significant decades experience in their respective roles. They have long track records in utility and securitization finance and regulation having worked on dozens of corporate and municipal debt financings throughout their careers. The advisory team also employs two full-time associates to assist in analytical duties.

Key professionals are as follows:

Jeremy Traska – Managing Director. Mr. Traska heads the debt capital markets group and oversees all transactions related to the power & utilities sector. He brings with him a wealth of experience, having spent the last 25 years in the financial services industry, including senior management leadership positions in investment grade and high yield capital markets and research with a focus on the power, utility, and energy sectors. Prior to working at Drexel Hamilton, Mr. Traska worked at firms such as Credit Suisse, Deutsche Bank, Cohen & Steers and Oppenheimer & Co. with

responsibilities ranging from capital markets and advisory to investment grade and high yield credit research. Mr. Traska is a graduate of Virginia Tech with a Bachelor of Science degree in Finance and served in the United States Coast Guard Auxiliary.

Swain Whitfield

Commissioner Emeritus Swain Whitfield, President of Swain Whitfield Consulting, acts as an advisor to the Drexel Hamilton team on matters related to the utility regulatory process where he is a known expert across all sectors. For the proposed mandate he will engage as a lead advisor working closely with Mr. Traska. He is a former member of the South Carolina Public Service Commission (PSC), representing the commission's fifth district where he served from 2008 to 2020. Whitfield was first appointed to the commission on July 1, 2008, and reappointed in 2012 and 2016. He served as the chairman of the PSC from July 1, 2016, to June 30, 2018. Outside of his home state of South Carolina, he served as the President of SEARUC— the Southeastern Association of Regulatory Utility Commissioners -- from 2017-2018.

Other Internal Staff and Resources

Drexel Hamilton has a dedicated structured products group that participates in primary issuance and secondary trading for all classes of structured products, including ABS, MBS and CLOs, and acts as an excellent resource that the advisory team can call upon for all information and insights related to the capital markets and investor sentiment.

To monitor all factors affecting utility financials and long-term secular fundamentals the advisory team can also call upon the firm's dedicated power & utility banking and M&A team which in the past has acted as a valuable resource insight into many of these topics.

Precision Analytics – Larry Wadler

For analytical support, Drexel Hamilton has an exclusive partnership with Precision Analytics Inc. (“Precision”), led by Larry Wadler, who has an almost thirty year track record of providing structuring services and transactional and programmatic cash flow verifications to such utility-related issuers as the Southern California Public Power Authority, the Black Belt Energy Gas District, the Southeast Energy Authority, the Tennessee Energy Acquisition Corporation, the Central Plains Energy Project, the Municipal Electric Authority of Georgia (“MEAG”), the South Carolina Public Service Authority (Santee Cooper), the Long Island Power Authority (“LIPA”), the Power Authority of the State of New York, and the Department of Water and Power of the City of Los Angeles.

Precision’s structured finance/cash flow verification services for these clients encompass a wide range of transaction types including commodity (gas and electric) prepayment securitizations and complex taxable and tax-exempt revenue bond transactions. Precision also provided cash flow analysis/structuring support for multi-layered project finance plans, as in the case of MEAG’s financing of its two new nuclear plants, and for comprehensive ongoing financing programs, as in the case of LIPA.

I. Track Record

Given our team’s deal track record and experience in the utility and securitization space we feel we are extremely qualified and capable to once again assume an advisory role for a potential utility securitization offering.

Throughout their careers at Drexel Hamilton and previous firms, team members have collectively worked on 18 separate utility securitization transactions spanning the last 10+ years with the most recent mandate closing in April 2024. Given this transactional track record, team members feel they have had the broadest and most up-to-date experience with the product and a firm perspective on what it takes to complete a successful transaction in the present market environment.

Members of Drexel Hamilton's advisory team have assumed a variety of roles in utility securitizations over the years. Our experience as an advisor and an underwriter has given us a unique perspective and an innate ability to oversee all aspects of a transaction with the eye to achieve the best possible outcome for the ratepayer. Drexel Hamilton has acted as an advisor to the **Public Utility Commission of Texas** on three separate utility securitizations since 2019 and has recently contracted to act in this role again for an upcoming securitization in that state. From July 2023 – March 2024, the firm served as Financial Advisor to the **Virginia State Corporation Commission** (VSCC) for a +\$1.2bn deferred fuel cost securitization sponsored by Virginia Power and from April 2023-April 2024 served as Financial Advisor to the **South Carolina Office of Regulatory Staff** (ORS) for a \$177mm storm recovery bond sponsored by Duke Energy Progress. Both of these offerings were inaugural transactions in their respective jurisdictions. In both of these cases, as stated before, Drexel Hamilton provided direct written testimony as well as in-person testimony which are publicly available.

In its prior roles, Drexel Hamilton was engaged specifically to provide transparency into, and evaluation of, the securitization financing process followed by the sponsoring utility, its advisors and its underwriting banks to the ensure that the respective had a basis for allowing the financing to go forward as had been proposed. In these roles, Drexel Hamilton worked with commission staff and in some instances the commissioners themselves over a multi-month period where we jointly

participated in weekly meetings with executives from the sponsoring utility, their advisors, counsel and the lead underwriting banks. In these meetings, members of Drexel Hamilton's team would discuss various factors related to a potential issuance including market conditions, deal structure, investor outreach and pricing methodology. Under these mandates, Drexel Hamilton worked to accomplish two objectives: first, to analyze and give feedback on the structure and pricing methodology for the bonds proposed by the lead underwriting investment banks and second, evaluate and offer feedback as to how the lead underwriting banks positioned and marketed the issuance and if these efforts achieved the lowest possible interest cost based on the proposed structure and prevailing market conditions. The first objective was accomplished by combining Drexel Hamilton's knowledge of the asset-backed securities, corporate bond, broader credit markets and institutional investor community while the second objective was accomplished by utilizing Drexel Hamilton's credit market presence and aggressive negotiations with the bookrunning investment banks and by extension investors evaluating the offering,

A brief summary of the team's capabilities is as follows:

- Providing transparency into, and evaluation of, the securitization financing process followed by issuers and their underwriting banks and ensuring that a proposed bond offering is properly marketed and priced.
- Providing written and in-person testimony in evidentiary hearings
- Reviewing proposed financing costs, structuring of bond issuance, expected pricing of the bonds, and terms and conditions of proposed securitizations
- Evaluating testimony, exhibits, filings, and reports in connection with bond issuance, including but not limited to: Issuance Advice Letter, proposed servicing reports, and proposed true-up calculation procedures.

Drexel Hamilton – Utility Securitization Underwriting and Advisory Track Record

Type	Date	Issuer	State	Principal	Drexel Role	UOP
Investor Owned	4/16/24	Duke Energy Progress SC	SC	\$177mm	ORS Advisor	Storm Recovery Costs
Investor Owned	2/5/24	Virginia Power Fuel Securitization	VA	\$1.28bn	Comm. Advisor	Deferred Fuel Costs
Investor Owned	12/5/23	Consumers Securitization	MI	\$646mm	Co-Manager	Stranded Costs
Investor Owned	6/21/23	SIGECO Securitization	IN	\$341.15	Co-Manager	Recovery Costs
Investor Owned	4/19/23	SCE Recovery Funding LLC	CA	\$775.4	Co-Manager	Recovery Costs
Investor Owned	6/8/22	TX Electric Market Stabilization (ERCOT)	TX	\$2,115.8	Comm. Advisor	Recovery Costs
Investor Owned	5/3/22	PG&E Wildfire Recovery Funding	CA	\$3,600.0	Co-Manager	Recovery Costs
Investor Owned	3/24/22	Entergy Texas Restoration Funding	TX	\$290.85	Comm. Advisor	Recovery Costs
Investor Owned	11/19/21	Duke Energy Carolinas NC Storm Fdg.	NC	\$237.2	Co-Manager	Recovery Costs
Investor Owned	11/19/21	Duke Energy Progress NC Storm Fdg.	NC	\$769.6	Co-Manager	Recovery Costs
Investor Owned	5/12/21	WEPCo Environmental Trust LLC	WI	\$118.80	Sole Co-Manager	Environmental Costs
Investor Owned	2/19/21	SCE Recovery Funding LLC	CA	\$338.78	Co-Manager	Recovery Costs
Investor Owned	9/11/19	AEP Texas Restoration Funding LLC	TX	\$235.26	Comm. Advisor	Recovery Costs
Investor Owned	6/16/16	Duke Energy Florida Project Finance	FL	\$1,294.00	Co-Manager	Stranded Costs
Municipal	10/24/17	Utility Debt Securitization Authority	NY	\$369.50	Co-Manager	Stranded Costs
Municipal	8/10/16	Utility Debt Securitization Authority	NY	\$475.00	Co-Manager	Stranded Costs
Municipal	3/11/16	Utility Debt Securitization Authority	NY	\$636.80	Co-Manager	Stranded Costs
Municipal	10/15/15	Utility Debt Securitization Authority	NY	\$1,002.10	Co-Manager	Stranded Costs

Beyond its work with investor owned and municipal utilities, the Drexel team regularly participates in NARUC-sponsored events and holds discussions with utility commissioners regarding utility finance and the capital markets which includes but is not limited to, securitization, corporate bonds, green bonds as well as issues related to cost of capital. Given this experience the advisory team has a deep understanding of how commissions operate and what is the correct protocol to work with commissioners and their staff.

II. Knowledge Attestation & Scope of Work

Regarding this proposed mandate, the team at Drexel Hamilton understands and is capable of carrying out the following prescribed duties. We attest to our knowledge of the following:

- familiarity with Cleco Power's application and request in Docket No. U-37213 which we have reviewed
- a detailed understanding of the major functional areas of a regulated investor-owned utility
- appropriate accounting standards and practices for electric public utilities, public utility accounting and generally accepted auditing standards
- utility depreciation and taxation issues, including utility taxation related to securitization
- the LPSC and FERC approved cost-of-service methodologies for electric utilities
- familiarity with the basic components and requirement of Cleco Power's Formula Rate Plan, including cost of capital, including capital structure, cost of debt and equity and rates of return
- prior Commission Orders involving securitized debt
- the cost allocation methodologies for the allocation of investments and expenses among affiliates, including the relationship of the holding company to its subsidiary operating companies, the transfer of investment and costs between operating companies, and the provision of services among affiliates
- appropriate mechanisms, allocation among customer classes and rate design for securitization cost property
- the Louisiana Electric Utility Transition Securitization Act, as amended, codified at La. R.S. 45:1271-1281
- securitization requirements and procedures and the ratemaking treatment of the benefits of securitization

Our team's capabilities include, but are necessarily limited to:

- Supporting Commission staff with review and analysis of the proposed securitization application
- Commenting and providing input on the plan of finance and financing schedule in connection with the issuance of the bonds.
- Providing ongoing analytical support to Commission Staff.
- Attending meetings with the Commissioners, Commission Staff and utilities.
- Assisting Staff in the preparation, review, and analysis of discovery requests and responses with respect to the securitization application and other submissions filed by parties and commenters in the proceeding.
- Participating in Commission hearings during securitization case proceedings by listening to testimony, providing questions for cross-examination of witnesses, and reviewing responses during the hearing.
- Furnishing other financial advisory services as requested by the Commission or Commission Staff.
- Evaluating various underwriting, legal, trustee, rating, and related fees and expenses related to the issuance of the bonds.
- Assisting the Commission and Commission Staff in the rating process and providing interaction with the rating agencies.
- Evaluating the projected cash flow from any revenue source that may constitute security for the bonds.
- Making recommendations as to the size, structure, specific terms and conditions of the bonds.

Compensation

The advisory team at Drexel Hamilton takes a very thorough approach to its work and employs all internal and external resources required to successfully complete a mandate. As mentioned in preceding sections of this proposal the advisory team is comprised of two highly skilled professionals with dedicated support from team associates. The advisory team typically employs a formulaic approach to cost calculation and quotations as we acknowledge that most mandates are not identical in scope of work and some may require more time and resources than others. In our estimate we assume a six-month engagement period that covers all aspects laid out in the scope of work.

Given the headcount and time required to complete the mandate along with travel, we feel a flat fee of **\$375,000.00** would represent sufficient compensation for completing this mandate. Our estimate assumes a period of 8-10 months to complete the mandate but are aware that the time period for completion could be longer. Within this period of time we estimate two professionals, at a rate of \$400/hr, for a total of roughly 470 hours. All associated fees will be covered by Drexel Hamilton and are assumed in the flat fee. The advisory team at Drexel Hamilton feels this is fair but would be flexible if needed.

References

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