



MESSAGE
FROM
GENERAL
MANAGER/
CEO

THOMAS
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Brazos Bankruptcy Update

ON NOVEMBER 14, 2022, the Bankruptcy Court entered the order confirming the reorganization of Brazos Electric and their exit of Chapter 11 bankruptcy. With this confirmation order, steps toward a resolution can now move forward.

There are still several significant hurdles for the exit plan to become effective, along with terms that must be met. One major term of the exit plan resolution is to pay ERCOT what is due. HILCO was originally sent a bill for \$154 million for our cost from the February 2021 storm. This was the initial estimate from Brazos for the cost of Winter Storm Uri for HILCO alone. This did not include the exorbitant cost of power due from all the other entities who purchased their power from Brazos. This overwhelming obligation is the reason they filed Chapter 11 bankruptcy back in March 2021. After months of mediation and hearings, the bankruptcy court has confirmed a final settlement of all costs. The final amount due from HILCO is \$121 million. To put this into perspective, the power bill for that one month alone was equivalent to more than four years of normal power bills for HILCO members.

In order to pay the \$121 million bill, securitization financing had to be utilized. Securitization financing is a standard method used by utilities to pay costs associated with extreme weather events, damage from natural disasters, etc. HILCO doesn't use long-term financing to pay power bills in the normal course of business, but the Winter Storm Uri cost was so significant that it is impossible to pay with operating funds.

What does using securitized financing mean for the members? Ultimately, the costs resulting from Winter Storm Uri must be paid. Because the costs are so great, they cannot be paid from operating funds. Financing the costs is the only option. Securitization allows utilities to issue bonds to obtain the necessary capital to pay for the costs from catastrophic events. This type of financing will allow HILCO to spread these extraordinary costs over an extended period of time and keep the monthly bills lower than they would be if securitized financing were not used. A securitization fee will be on the HILCO members' monthly bills starting this month. This fee will continue to be charged for years to come until the bonds, and the related financing costs are paid in full. The securitization charge will be based on energy usage and subject to adjustments periodically to ensure that we collect the sufficient, and only the sufficient, funds to timely

pay the principal and interest on the bonds. If the energy usage in HILCO's service territory grows, the amount of the charge per kWh will decrease.

Another requirement of the bankruptcy exit plan is the sale of generation assets. After the plan's effective date, the reorganized Brazos will divest its generation assets in one or more asset sales, disperse its power-supply business, and transition the Brazos cooperative from a generation and transmission electric cooperative into a transmission and distribution cooperative. This means that Brazos will no longer be HILCO's power supplier. HILCO will be released from the existing contract with Brazos and execute an amended contract eliminating the power supply provision. At that point, HILCO will be free to purchase wholesale power from other entities.

Another term in the exit plan is the formation of a hardship fund. Brazos will create a fund to assist low-income members with the securitization charges incurred from Winter Storm Uri. The fund will be governed by a separate body and utilize a third-party administrator to determine the eligibility of applicants.

The bankruptcy situation is still very fluid. At least at this point, we know the final cost and have a plan to move forward. A year of high bills due to natural gas prices and this winter event's financial implications will continue to increase all of our financial burdens. HILCO is still committed to providing our members with safe, reliable energy at the lowest cost possible. We will continue to work relentlessly to provide you the best service we can. ■