

## FAQs Regarding Securitization

- **What is the “Notice of Potential Financing Order” published in the recent *Texas Co-op Power* magazine?**

It is notice to HILCO members that HILCO is considering adopting a financing order that authorizes it to utilize securitization financing to recover the extraordinary costs incurred due to Winter Storm Uri in February 2021. This will allow HILCO to pay the power bill from that storm and spread it over an extended period of time. Securitization financing is a common 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 this bill was so significant, it was impossible to pay with operating funds.

- **What is securitization?**

During Winter Storm Uri in February 2021, HILCO incurred significant power costs resulting from the effects of that abnormal and extreme weather event. In May 2021, the Texas legislature adopted SB 1580 which enables electric cooperatives to use securitization financing to recover the extraordinary costs incurred due to Winter Storm Uri. A separate bill was passed to allow other types of electric providers to use securitization as well. It allows the utilities to issue bonds to obtain the necessary capital to pay for the costs from Winter Storm Uri. 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 was not used. We estimate that this type of financing will result in savings of over \$44 million compared to costs that would have been incurred using conventional financing.

- **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. If securitized financing is used, a securitization charge will be included on monthly bills to repay the bonds and the ongoing financing costs. The securitized charges will remain in effect until the bonds are paid in full. It will be based on energy usage and subject to adjustment 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.

- **How extraordinary was the power cost for February 2021 following Winter Storm Uri?**

The power bill for that month alone was equivalent to more than four years of normal power bills. It included substantial amounts we owe to our wholesale power supplier, Brazos Electric. Brazos Electric is currently in bankruptcy, and the amount we owe for power supplied during Winter Storm Uri will be ultimately determined by the bankruptcy court.

- **When will members see this charge on their bills?**

The securitization financing will not occur, and will not be implemented, unless and until Brazos Electric emerges from bankruptcy. We currently expect that to occur this fall, with the securitization financing to close before year end. We believe that the charge will be included in the monthly bills beginning in January 2023.