

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF PUBLIC SERVICE COMPANY OF NEW )  
MEXICO FOR APPROVAL OF THE )  
ABANDONMENT OF THE FOUR CORNERS )  
POWER PLANT AND ISSUANCE OF A )  
SECURITIZED FINANCING ORDER )  
)  
PUBLIC SERVICE COMPANY OF NEW )  
MEXICO, )  
)  
Applicant )  
\_\_\_\_\_)**

**Case No. 21-\_\_\_\_\_-UT**

**DIRECT TESTIMONY**

**OF**

**CHARLES N. ATKINS II**

**January 8, 2021**

**NMPRC CASE NO. 21-\_\_\_\_-UT  
INDEX TO THE DIRECT TESTIMONY OF  
CHARLES N. ATKINS II**

**WITNESS FOR  
PUBLIC SERVICE COMPANY OF NEW MEXICO**

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PNM Exhibit CNA-1	Professional Resume of Charles N. Atkins II
PNM Exhibit CNA-2	Internal Revenue Service Revenue Procedure 2005-62
PNM Exhibit CNA-3	A list of investor-owned utility securitization transactions since 1997
PNM Exhibit CNA-4	The Securities Firm Memorandum and Supporting Exhibits

SELF-VERIFICATION

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1

**I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT**  
3 **EMPLOYMENT POSITION.**

4 **A.** My name is Charles N. Atkins II. I am the CEO of Atkins Capital Strategies, LLC,  
5 in New York. My business address is 170 East End Avenue, No. 7G, New York,  
6 New York 10128. I am currently serving as a co-financial advisor to PNM with  
7 respect to this proceeding. Previous to this role, I served as a Senior Advisor with  
8 Guggenheim Securities, LLC (“Guggenheim”), and in that previous role, I led the  
9 preparation of the Securities Memorandum by Guggenheim. In my current role as  
10 co-financial advisor to PNM, I reviewed the Securities Firm Memorandum and  
11 concur in its results.

12

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.**

14 **A.** Pursuant to the Energy Transition Act, Public Service Company of New Mexico  
15 (“PNM” or “Company”) has requested that the New Mexico Public Regulation  
16 Commission (“Commission”) adopt the proposed Financing Order enabling the  
17 Company to use securitization as a means to finance certain Energy Transition  
18 Costs and related upfront financing costs associated with PNM’s proposed  
19 abandonment of its coal-fired generation ownership at the Four Corners coal plant.  
20 PNM’s proposed transaction and Financing Order are consistent with those  
21 approved by the Commission in Docket 19-00018-UT relating to PNM’s  
22 abandonment of its interest in the San Juan coal plant. My testimony provides

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1 background for the Financing Order proposed by the Company and describes how  
2 the proposed securitization is structured to achieve the highest possible credit  
3 ratings and price at the lowest market-clearing interest costs consistent with  
4 investor demand and market conditions at the time of pricing.

5

6 **Q. PLEASE DISCUSS YOUR EDUCATIONAL BACKGROUND AND**  
7 **PROFESSIONAL EXPERIENCE.**

8 **A.** I am a graduate of Harvard Law School, with a Juris Doctor degree. I am also a  
9 graduate of Howard University's College of Arts and Sciences with a Bachelor of  
10 Arts degree in Political Science, with minor concentrations in Economics,  
11 Mathematics and Sociology (Honors Program, Magna Cum Laude, Phi Beta  
12 Kappa).

13

14 My relevant professional experience includes 23 years of structured finance  
15 investment banking at Morgan Stanley, where I focused on corporate structured  
16 finance and the securitization of consumer, operating and new assets. I also served  
17 as an independent consultant to utilities, financial sponsors and other financial  
18 institutions as Chief Executive Officer of Atkins Capital Strategies LLC, from 2013  
19 to 2017. I was a Senior Advisor at Guggenheim from 2017 through August 2020. I  
20 have been heavily involved in utility securitizations and played a lead banking role  
21 in the first utility stranded cost securitization, which was the \$2.9 billion transaction  
22 for Pacific Gas and Electric in 1997. At Morgan Stanley, and as an independent  
23 consultant, I served as an advisor to utilities or as a senior Morgan Stanley banker

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1 where Morgan Stanley served as a lead or joint lead underwriter for 26 utility  
2 securitization bond issues, totaling more than \$18 billion, plus two utility ring-  
3 fencing reorganization transactions with an associated value of \$5.3 billion. I have  
4 provided testimony as an expert witness on behalf of utilities before regulatory  
5 commissions in Arkansas, Louisiana, Maryland and Texas. In addition, while a  
6 Senior Advisor with Guggenheim Securities, I provided testimony on behalf of  
7 PNM in the proceedings before this Commission relating to PNM's request for a  
8 financing order for the issuance of \$361 million of energy transition bonds in  
9 connection with the abandonment PNM's ownership interest in the San Juan coal  
10 plant (the "SJGS Securitization"). I recently returned to my firm Atkins Capital  
11 Strategies LLC and continue to work as co-financial advisor with Guggenheim on  
12 this transaction. I have also recently submitted testimony on behalf of Duke Energy  
13 Carolinas and Duke Energy Progress, while engaged by Duke as co-financial  
14 advisor along with Guggenheim, in connection with the proposed \$978 million of  
15 storm cost recovery securitizations in North Carolina by those Duke subsidiaries.  
16 A copy of my professional resume is attached as PNM Exhibit CNA-1.

17

18 **Q. DO YOU POSSESS ANY PROFESSIONAL LICENSES RELATED TO THE**  
19 **SECURITIES INDUSTRY?**

20 **A.** Yes. I am Series 7 (General Securities Representative Qualification) qualified by  
21 the Financial Industry Regulatory Authority that allows an individual to solicit,  
22 purchase, or sell all securities products, including asset-backed securities. I am also  
23 Series 79 (Investment Banking Representative) qualified, which allows an

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1 individual to advise on and facilitate debt and equity offerings (public offerings or  
2 private placements), mergers and acquisitions, tender offers, financial  
3 restructurings, asset sales, divestitures, corporate reorganizations and business  
4 combination transactions.

5

6 **II. PURPOSE OF TESTIMONY**

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

8 **A.** I am testifying on behalf of PNM.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 **A.** The purpose of my testimony is to:

12 1. Provide background information on the use of utility securitization in other  
13 jurisdictions (“utility securitization” is a generic term used to refer to  
14 securitizations for a number of different recovery purposes; some of the  
15 names used include rate reduction bonds, stranded cost bonds, energy  
16 transition bonds, storm recovery bonds, system restoration bonds, and  
17 restructuring bonds, among other names); as well as discuss some of the basic  
18 framework elements of the energy transition bonds proposed to be issued in  
19 connection with the abandonment of PNM’s coal-fired generation ownership  
20 and certain related transmission facilities at the Four Corners coal plant (the  
21 “Energy Transition Bonds”);

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- 1           2. Present a proposed preliminary energy transition bond structure and discuss  
2           certain structuring considerations; and
- 3           3. Discuss several of the key commercial terms of proposed Energy Transition  
4           Bonds that PNM expects will be required for a successful issuance of the  
5           Bonds, as well as key provisions of the proposed Financing Order.

6

7   **Q.   WHAT EXHIBITS TO THE FINANCING ORDER APPLICATION DO**  
8   **YOU SPONSOR?**

9   **A.**   I am sponsoring the following exhibits described below and attached to my  
10   testimony:

- 11           • PNM Exhibit CNA-1: Professional resume of Charles N. Atkins II
- 12           • PNM Exhibit CNA-2: Internal Revenue Service Revenue Procedure 2005-  
13           62
- 14           • PNM Exhibit CNA-3: A list of investor-owned utility securitization  
15           transactions since 1997
- 16           • PNM Exhibit CNA-4: The securities firm memorandum addressed to the  
17           Company (the “Securities Firm Memorandum”), required by Section 62-  
18           18-4(B)(5) of the Energy Transition Act, which includes details of the  
19           preliminary proposed transaction structure and compares the proposed  
20           transaction to the “AAAsf” rating criteria published by Fitch Ratings, Inc.  
21           (the “sf” designation is used by Fitch for structured finance ratings). Fitch  
22           Ratings, Inc. is a nationally recognized statistical rating organization for  
23           issuances similar to the proposed Energy Transition Bond transaction. The

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1 current utility securitization ratings criteria published by Fitch Ratings,  
2 Inc., as well as the State Board of Finance attestation concerning the  
3 qualifications of Guggenheim and myself, as CEO of Atkins Capital  
4 Strategies, LLC, to prepare and review the Securities Memorandum, are  
5 included among several Supporting Exhibits to the Securities Firm  
6 Memorandum.

7  
8 **Q. WHAT IS THE ROLE OF GUGGENHEIM SECURITIES WITH RESPECT**  
9 **TO PNM'S FINANCING ORDER APPLICATION AND YOUR ROLE IN**  
10 **PARTICULAR?**

11 **A.** The role of Guggenheim Securities is consistent with its role with respect to PNM's  
12 financing application relating to the SJGS Securitization. Guggenheim Securities  
13 was engaged by PNM to act as PNM's financial advisor in connection with PNM's  
14 review and assessment of various capital markets considerations relating to a  
15 proposed securitization transaction and related financing application under the  
16 Energy Transition Act with respect to the Four Corners coal plant interest PNM is  
17 proposing to abandon. This included assisting PNM in its review and consideration  
18 of various structural and financial aspects of the proposed securitization and  
19 development of the proposed financing order, as well as preparation of the  
20 Securities Firm Memorandum as required by the Energy Transition Act (Section  
21 62-18-4(B)(5)) and supporting testimony. The engagement was effectively subject  
22 to the approval of Guggenheim Securities and of me personally by the Board of  
23 Finance of the State of New Mexico as qualified to provide the Securities Firm



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1 Memorandum. As noted below, the attestation to that effect by the Board of  
2 Finance is attached as Supporting Exhibit 1 to the Memorandum.

3  
4 As I mentioned previously, I led the development of the format, analysis and  
5 preparation of the previous Securities Firm Memorandum, which compared the  
6 then published Fitch Ratings criteria for utility securitizations with the proposed  
7 structure of the SJGS Securitization. The previous Securities Firm Memorandum  
8 described in detail how the proposed Energy Transition Bond structure satisfied the  
9 published Fitch criteria for AAA equivalent ratings. My Guggenheim colleagues  
10 and I also worked closely with representatives of PNM to develop the proposed  
11 structure for the Energy Transition Bonds in compliance with the applicable ratings  
12 agency criteria and the requirements of the Energy Transition Act.

13  
14 While I am no longer affiliated with Guggenheim Securities, as co-financial advisor  
15 to PNM I conducted a close review of the preparation of the Securities Firm  
16 Memorandum submitted in connection with this proceeding. I  
17 fully concur with the Memorandum results. This Memorandum follows the same  
18 format and analysis as the previous Memorandum, with the difference that the SJGS  
19 securitization AAAsf stress analysis results are aggregated with the AAAsf stress  
20 analysis results for this proposed transaction. Fitch takes into account any previous  
21 outstanding securitizations in their rating analysis. This Memorandum indicates  
22 that both transactions, when aggregated for rating purposes, satisfy the Fitch criteria  
23 for AAA equivalent ratings.

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1     **Q.   HAS THE NEW MEXICO STATE BOARD OF FINANCE PROVIDED THE**  
2     **ATTESTATION THE ENERGY TRANSITION ACT (SECTION 62-18-**  
3     **4(B)(5)) REQUIRES WITH RESPECT TO GUGGENHEIM SECURITIES?**

4     A.   Yes, the New Mexico State Board of Finance provided the required attestation on  
5     December 15, 2020. A copy of this attestation is attached as Supporting Exhibit 1  
6     to the Memorandum. Considering my prior leading role with Guggenheim  
7     Securities on this engagement, and my current role as CEO of Atkins Capital  
8     Strategies, LLC, the State Board of Finance specifically noted my involvement and  
9     experience in its attestation letter. In particular, the letter provides as follows:

10                    “As a result, we conclude and attest that Guggenheim Securities, LLC and  
11                    Charles N. Atkins II have experience in the marketing of bonds similar to  
12                    the energy transition bonds authorized by the ETA and they have the  
13                    expertise to provide a memorandum indicating whether the bonds would  
14                    satisfy the current published AAA or equivalent rating criteria of at least  
15                    one nationally recognized statistical rating organization for issuances  
16                    similar to the proposed energy transition bonds.”

17  
18                    This statement confirms that, for purposes of the Energy Transition Act (Section  
19                    62-18-4(B)(5)), Guggenheim Securities, and I in particular, are experienced in the  
20                    marketing of bonds similar to those authorized by the Energy Transition Act and  
21                    therefore qualified to provide the required Securities Firm Memorandum.

22

23     **Q.   HAS GUGGENHEIM SECURITIES DELIVERED THE REQUIRED**  
24     **SECURITIES FIRM MEMORANDUM?**

25     A.   Yes. As co-financial advisor, I closely reviewed the analysis contained in the  
26     Securities Firm Memorandum submitted by Guggenheim Securities, and I fully  
27     concur with the Memorandum results.

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1

**III. SECURITIZATION BACKGROUND**

2 **Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION.**

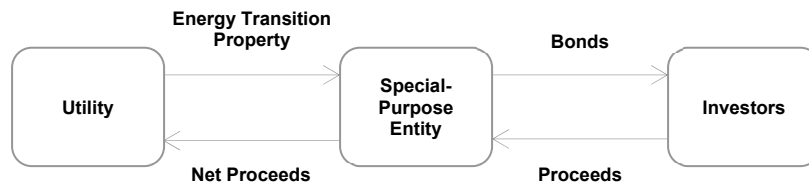
3 **A.** Securitization is the process in which an owner of a cash flow-generating asset sells  
4 the asset for an upfront payment, done in a manner that legally isolates (or de-links)  
5 the cash flow-generating asset from the credit quality of the owner/seller. The sale  
6 process is intended to protect investors from any changes in credit circumstances,  
7 or even the bankruptcy, of the entity that sold the asset. Therefore, the “credit” of a  
8 securitization is the ability of the legally isolated asset to produce a set of payments  
9 (or cash flows) for investors, who purchase a securitized interest in the asset. Fixed  
10 income debt securities collateralized by the legally isolated asset are issued to  
11 investors, and those investors rely solely on the legally isolated asset and associated  
12 cash flows to pay interest and principal on the issued debt securities. The debt  
13 securities are non-recourse to the selling entity.

14

15 In the context of utility securitization, the underlying cash flow-generating asset is  
16 an intangible property right authorized by state legislation and created pursuant to  
17 a financing order. This property right includes the right to impose upon the utility’s  
18 customers charges required to pay the interest, principal and other ongoing  
19 financing costs associated with the debt securities issued in the securitization on a  
20 timely basis, as scheduled. This property right is also referred to as the collateral  
21 for the transaction. The utility sells the property right to a newly established,  
22 special-purpose entity (“SPE”) which, as its name implies, functionally does

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1 nothing other than purchase the collateral and issue bonds to investors to fund that  
2 purchase. The conveyance of the property right from the utility to the SPE is also  
3 referred to as a “true sale,” as it legally isolates the collateral from the seller of the  
4 collateral. A true sale of the collateral supports the “bankruptcy-remoteness” of the  
5 SPE and the securitization debt. To have the funds needed to purchase the collateral,  
6 the SPE issues debt securities to investors, collateralized by the property right. In  
7 exchange for the issued debt, investors pay an upfront purchase price, which is  
8 passed through the SPE back to the utility. Below is a simplified indicative  
9 schematic of the transaction closing mechanics described above:



10  
11  
12  
13  
14 In addition to the essential structure described above, the securitization process also  
15 includes another key component: ongoing collections of the cash generated by the  
16 collateral. Here, a trustee (a “Trustee” is typically a commercial bank experienced  
17 with securitization trust services) and the utility play important roles. The utility  
18 will continue to perform its routine billing and collecting functions. In the context  
19 of securitization, this function is referred to as servicing and the utility takes on the  
20 role as the servicer. In addition to its routine billing and collecting functions, as  
21 servicer, the utility will also perform certain reporting duties with respect to the  
22 amount of money collected. The servicer will perform these functions for the SPE  
23 pursuant to a contractual arrangement known as the servicing agreement. The

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1 Trustee also plays an important role in the safekeeping of the ongoing collections  
2 and distributing them to investors. After receiving its collections, the servicer  
3 remits the monies to the SPE trust account held at the Trustee, which maintains  
4 those monies until it periodically remits them to investors according to a pre-  
5 determined set of payment priorities (the “waterfall”) and schedule (typically semi-  
6 annually in utility securitizations). The Trustee serves as a representative of the  
7 bondholding investors and ensures that their rights are protected in accordance with  
8 the terms of the transaction.

9  
10 **Q. WHAT IS THE VOLUME OF UTILITY SECURITIZATIONS THAT HAVE**  
11 **BEEN TRANSACTED TO DATE, AND WHO ARE THE TYPICAL**  
12 **INVESTORS?**

13 **A.** Utility securitizations are structured based upon well-established legal and rating  
14 criteria and have been issued since 1997. These securitizations may have specific  
15 requirements for tax purposes, please see PNM Exhibit CNA-2. According to  
16 public records, including SEC registration filings, since 1997 to date, there have  
17 been 66 securitization transactions by or on behalf of investor-owned utilities.  
18 These transactions are well understood by many investors, and types of investors  
19 that have participated in utility securitizations include banks, institutional and retail  
20 trust funds, money managers, investment advisors, pension funds, insurance  
21 companies, securities lenders and state trust funds. I attach a list of investor-owned  
22 utility securitization transactions as PNM Exhibit CNA-3.

23

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1    **Q.   HAVE OTHER COLLATERAL TYPES BEEN SECURITIZED IN A**  
2    **SIMILAR MANNER?**

3    **A.**   Yes, the market for securitized products or asset-backed securities (“ABS”) is very  
4    large.  Examples of other collateral types include certain consumer-related cash  
5    flows, such as credit card receivables, auto loans, auto leases, and student loans.  
6    During 2019, an estimated \$297 billion of ABS was issued in the United States,  
7    and during 2020, issuance for the U.S. ABS market was approximately \$218 billion  
8    (Source: Asset-Backed Alert Database).  The investors who primarily purchase  
9    utility securitizations generally come from both the ABS market and the corporate  
10   fixed income debt market.

11  
12   **Q   PLEASE DESCRIBE THE FORMATION OF THE SPE THAT WILL ISSUE**  
13   **THE ENERGY TRANSITION BONDS.**

14   **A.**   PNM’s securitization transaction relating to the proposed abandonment (the “Four  
15   Corners Securitization”) is generally expected to follow a process similar to the  
16   process for utility securitizations described above.  PNM will form the SPE as a  
17   Delaware LLC, and a wholly-owned subsidiary of PNM.  The SPE LLC Agreement  
18   will contain provisions designed to ensure that the SPE will be a bankruptcy-remote  
19   limited purpose entity.  When I refer to “bankruptcy-remote,” I mean that the SPE  
20   is being structured so that in the unlikely event of a PNM bankruptcy, the SPE  
21   would not be consolidated with other PNM entities into PNM’s bankruptcy estate,  
22   and the payment of the securitization debt service would not be “stayed” or stopped  
23   during the bankruptcy process.  This “bankruptcy-remote” concept is included in

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1 the Energy Transition Act in Sections 62-18-9(B) and 62-18-12(F) and (G), NMSA  
2 1978. Importantly, the SPE is structured to operate independently, requiring that  
3 fees paid to third-parties providing services to the SPE, including PNM as Servicer  
4 and Administrator, are set on an arms-length basis. These provisions supporting the  
5 bankruptcy-remote nature of the SPE are critical to achieving the desired “AAA”  
6 ratings for the Energy Transition Bonds. An illustrative draft form of the Amended  
7 and Restated SPE LLC Agreement has been included as PNM Exhibit LES-8 to the  
8 testimony of PNM Witness Sanchez. As discussed further below, PNM may cause  
9 the Energy Transition Bonds to be issued through the same SPE that issues energy  
10 transition bonds in the SJGS Securitization or PNM may form a new SPE to issue  
11 the Four Corners Securitization Energy Transition Bonds.

12  
13 **Q. WHAT MAKES UP THE “ENERGY TRANSITION PROPERTY” THAT**  
14 **THE COMPANY SELLS TO THE SPE?**

15 **A.** The Energy Transition Property that is created pursuant to the Financing Order and  
16 sold to the SPE is the right to bill and collect a certain non-bypassable charge, the  
17 Energy Transition Charge, directly from all customers within the Company’s  
18 service territory receiving electric delivery service, applying the applicable  
19 customer allocations, in amounts necessary to pay principal and interest on the  
20 Energy Transition Bonds, as well as other amounts, timely and in full. Included in  
21 this property right is the requirement, over the full life of the transaction, to adjust  
22 the amount of the Energy Transition Charges owed by the Company’s retail electric  
23 customers, based principally upon variations in energy demand, energy

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1 consumption and the number of the Company’s customers, to ensure that the  
2 amounts collected are sufficient to pay all amounts owed with respect to the Energy  
3 Transition Bonds, on a timely basis as scheduled. This process is referred to as the  
4 “true-up” adjustment mechanism.

5  
6 **Q. PLEASE FURTHER DESCRIBE THE SALE OF THE ENERGY  
7 TRANSITION PROPERTY BY PNM TO THE SPE.**

8 **A.** Pursuant to the Sales Agreement, in consideration for the payment by the SPE of  
9 the purchase price for the Energy Transition Property, the Company will sell,  
10 assign, transfer and convey all right, title and interest of the Company in, to and  
11 under the Energy Transition Property to the SPE. An illustrative draft of the Energy  
12 Transition Property Purchase and Sale Agreement (the “Sales Agreement”)  
13 between PNM and the SPE is attached to the testimony of PNM Witness Sanchez,  
14 as PNM Exhibit LES-4. The Sales Agreement will provide that such sale, transfer,  
15 assignment and conveyance is expressly stated to be an absolute transfer and true  
16 sale. Pursuant to Section 62-18-14(A) of the Energy Transition Act, if the sale  
17 agreement expressly so states, any sale, assignment or transfer of Energy Transition  
18 Property to a financing entity assignee that is wholly owned, directly or indirectly,  
19 by the utility shall be an absolute transfer and true sale of, and not a pledge of or  
20 secured transaction relating to, the seller’s right, title and interest in, to and under  
21 the Energy Transition Property. As I mentioned previously, this “true sale”  
22 treatment is an essential component of legally isolating the Energy Transition



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1 Property collateral from the bankruptcy risk of PNM and achieving “AAA” ratings  
2 for the Energy Transition Bonds.

3

4 **Q. PLEASE DESCRIBE THE ENERGY TRANSITION PROPERTY AND**  
5 **ENERGY TRANSITION CHARGES SUPPORTING THE ENERGY**  
6 **TRANSITION BONDS.**

7 **A.** The Energy Transition Property is defined in Section 62-18-2(I) of the Energy  
8 Transition Act as the rights and interests of a qualifying utility such as PNM, or an  
9 assignee (*i.e.* the SPE) pursuant to the Financing Order that acquires such rights  
10 and interests of PNM, including the right to impose, charge, collect and receive  
11 Energy Transition Charges in an amount necessary to provide for full payment and  
12 recovery of all Energy Transition Costs identified in the Financing Order, including  
13 all revenues or other proceeds arising from those rights and interests. As set forth  
14 in Section 62-18-2(G) of the Energy Transition Act, the Energy Transition Charges  
15 are to be the non-bypassable charges paid by all PNM customers to recover the  
16 Energy Transition Costs, which include upfront and ongoing Financing Costs.

17

18 The Energy Transition Charges will be designed to provide for amounts sufficient  
19 to pay the principal of and interest on the Energy Transition Bonds as scheduled  
20 and in full, as well as other ongoing Financing Costs associated with the Energy  
21 Transition Bonds. Included in the Energy Transition Property is the True-Up  
22 Adjustment Mechanism, which is a requirement to adjust the amount of the Energy  
23 Transition Charges owed by PNM’s customers to ensure that the amounts actually

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1 collected are sufficient to pay all amounts owed with respect to the Energy  
2 Transition Bonds as scheduled and in full, including ongoing Financing Costs. The  
3 process for implementing the True-Up Adjustment Mechanism is described in the  
4 testimony of PNM Witness Settlage.

5  
6 **Q. HOW ARE ENERGY TRANSITION BONDS DIFFERENT FROM**  
7 **CORPORATE BONDS?**

8 **A.** The Energy Transition Bonds will be structured to amortize with scheduled  
9 principal payments through specific points in time prior to the rated legal final  
10 maturity date of the Energy Transition Bonds. These points in time are referred to  
11 as the expected or scheduled maturities for each of the multiple tranches of bonds  
12 issued in the transaction. (I will describe the “tranching” of the Energy Transition  
13 Bonds below.) Amortizing, or sinking-fund, structures are distinct from a  
14 traditional utility corporate bond, which generally have only a single “bullet”  
15 principal payment at the bond maturity date. Another difference is that the Energy  
16 Transition Bonds will be structured with a time gap between each tranche’s  
17 scheduled maturity and the rated legal maturity of that tranche. This time gap,  
18 sometimes called a “maturity cushion,” provides extra time to pay the outstanding  
19 principal amount of the tranche in full in the event that unforeseen circumstances  
20 such as significant declines from either the forecasted energy demand, forecasted  
21 consumption, and/or forecasted number of customers, cause a material decrease in  
22 Energy Transition Charge collections.

23

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1    **Q.    ARE THERE “OTHER AMOUNTS” BEYOND DEBT SERVICE**  
2    **REQUIRED TO BE COLLECTED IN CONNECTION WITH THE**  
3    **ENERGY TRANSITION BONDS?**

4    **A.**    There will be other amounts in addition to the bond principal and interest that will  
5    be payable on an ongoing basis over the life of the transaction. These costs, which  
6    are required ongoing financing costs, include, but are not limited to, servicing fees,  
7    trustee fees, rating agency surveillance fees, legal fees, administrative fees, audit  
8    fees, other operating expenses and credit enhancement expenses (if any).  
9    Generally, these amounts are SPE expenses that are required to keep the transaction  
10   working as designed, without reliance on PNM or any other source of funds. It is  
11   essential to the SPE’s status as a bankruptcy-remote entity for the transaction  
12   structure to provide for the full payment of ongoing financing costs. These  
13   anticipated fees and expenses are estimated in the testimony of PNM Witness  
14   Sanchez and included as PNM Exhibit LES-3.

15  
16   **Q.    IN YOUR EXPERIENCE, ARE THE COSTS ESTIMATED BY PNM**  
17   **WITHIN THE RANGE OF COSTS YOU HAVE PREVIOUSLY SEEN FOR**  
18   **SIMILAR EXPENSES?**

19   **A.**    Yes, I have provided input on and reviewed the preliminary expense estimates  
20   provided by PNM Witness Sanchez, as well as the supporting examples provided  
21   from previous transactions. While PNM’s proposed securitization is not expected  
22   to occur until January 2025, and costs may change, these estimated costs are within  
23   the ranges found in other utility securitization transactions. These cost estimates

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1 also are consistent with those provided by PNM in its financing application relating  
2 to the SJGS Securitization approved by the Commission on April 1, 2020.

3

4 **Q. IN ADDITION TO THE ENERGY TRANSITION PROPERTY, ARE**  
5 **THERE ANY OTHER COMPONENTS OF THE COLLATERAL FOR THIS**  
6 **TRANSACTION?**

7 **A.** Yes, the collateral for the transaction includes other components in addition to the  
8 Energy Transition Property. However, that property right is the principal asset  
9 pledged as collateral. Pursuant to the indenture by and between the SPE, as bond  
10 issuer, and the Trustee, as indenture trustee and securities intermediary (the  
11 “Indenture”), a draft form of which is attached to the testimony of PNM Witness  
12 Sanchez as PNM Exhibit LES-5, the other collateral includes a collection account,  
13 which is established by the SPE as a trust account to be held by the Trustee to ensure  
14 the scheduled payment of principal, interest and other costs associated with the  
15 Energy Transition Bonds are paid in full and on a timely basis. The collection  
16 account, in turn, is comprised of the three subaccounts:

- 17       • the general subaccount;
- 18       • the capital subaccount;
- 19       • and the excess funds subaccount.

20 The collateral also consists of the SPE’s rights under certain agreements it enters  
21 into as part of the transaction, including the Sales Agreement and the Servicing  
22 Agreement.

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1 **Q. PLEASE DESCRIBE THE SUBACCOUNTS OF THE COLLECTION**  
2 **ACCOUNT REFERRED TO ABOVE.**

3 **A.** The general subaccount is the subaccount in which the Trustee deposits Energy  
4 Transition Charge remittances it receives from the Servicer. Monies in this  
5 subaccount will be applied by the Trustee on a periodic basis to make payments  
6 according to a prescribed order (or “waterfall”), which generally includes the  
7 payment of SPE expenses required to maintain the operations of the transaction,  
8 then interest on the Energy Transition Bonds, and then principal on the Energy  
9 Transition Bonds. As mentioned, an illustrative draft of a form of the indenture  
10 between the SPE as Bond Issuer and the Trustee for the bondholders, is included  
11 with the testimony of PNM Witness Sanchez, as PNM Exhibit LES-5.

12  
13 The capital subaccount represents the equity capital of the SPE and is funded by an  
14 amount contributed by PNM at the time of the bond issuance that is equal to 0.50%  
15 of the initial capitalization of the Energy Transition Bond transaction (*i.e.* the  
16 aggregate amount of the equity contribution and the principal amount of the Energy  
17 Transition Bonds issued, combined). If that subaccount is drawn upon, it is  
18 replenished from Energy Transition Charge collections through the true-up and any  
19 available excess Energy Transition Charge collections. The Company’s proposed  
20 equity investment of 0.50% has been derived from guidance from the Internal  
21 Revenue Service through its Revenue Procedure 2005-62 and the requirements of  
22 Section 62-18-4(B)(8) of the Energy Transition Act. The testimony of PNM  
23 Witness Sanchez addresses the Company’s return on this capital contribution at a

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1 rate equivalent to the interest rate on the longest-dated tranche of bonds issued in  
2 the transaction. The I.R.S. Revenue Procedure sets forth the way an investor-owned  
3 utility may treat, for federal income tax purposes, the issuance of a financing order  
4 by a state regulatory agency and the securitization of the rights created by the  
5 financing order. Having an equity investment in the SPE of at least 0.50% is within  
6 the safe harbor provided in the Revenue Procedure and helps to ensure that the  
7 Company will not recognize in its taxable income the cash proceeds received from  
8 the issuance of the Energy Transition Bonds. Rather, the Energy Transition Bonds  
9 will be considered borrowings of the Company for federal income tax purposes.  
10 I.R.S. Revenue Procedure 2005-62 is included in my testimony as PNM Exhibit  
11 CNA-2.

12  
13 The excess funds subaccount is where any monies on deposit in the general account  
14 that are not required to meet the scheduled interest and principal obligations of the  
15 Bonds will be deposited. The initial balance is zero, and the target ongoing balance  
16 is also zero. To the extent there are funds on deposit in this subaccount, those  
17 amounts will be considered in the next available true-up process and the subaccount  
18 value will again be generally targeted to be zero. Stated differently, to the extent  
19 Energy Transition Charge collections are higher than expected in any given true-  
20 up calculation period, those amounts do not pay down the principal balance of the  
21 Bonds beyond the scheduled principal payment for that period. Rather, the amounts  
22 on deposit in the general subaccount above and beyond the scheduled obligations  
23 will be moved to the excess funds subaccount. Those amounts will then reduce the

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1 amount of Energy Transition Charge collections needed in the subsequent true-up  
2 calculation period.

3

4 **Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS REMAINING**  
5 **IN THE VARIOUS SUBACCOUNTS AT THE FINAL MATURITY OF THE**  
6 **TRANSACTION.**

7 **A.** Funds remaining in the general subaccount and the excess funds subaccount will  
8 be returned to the SPE upon final payment in full of the Energy Transition Bonds  
9 and all other Financing Costs, and equivalent amounts will be credited to customers  
10 in the form of a credit to their electricity bills. Monies remaining in the PNM-  
11 funded capital subaccount along with the authorized return, will be returned to the  
12 Company through the SPE without any equivalent credit to customers' electric  
13 bills, since the capital subaccount was funded at issuance with the Company's own  
14 funds.

15

16 **IV. DESCRIPTION OF PROPOSED TRANSACTION**

17 ***A. Transaction Structure***

18 **Q. PLEASE DESCRIBE THE PRELIMINARY STRUCTURE OF THE**  
19 **COMPANY'S PROPOSED ENERGY TRANSITION BONDS.**

20 **A.** The preliminary structure for the estimated \$300 million Energy Transition Bond  
21 transaction proposed by PNM is presented in the following table, PNM Table CNA-  
22 1. The table shows on a preliminary, indicative basis, five tranches of bonds, which

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1 will amortize in a sequential manner, along with the indicative credit spreads to  
2 benchmarks and the associated interest coupons, scheduled maturities and rated  
3 legal maturities. I recommend that the initial debt service payment be scheduled  
4 for approximately nine months after the closing of the transaction, with debt service  
5 payments thereafter occurring on a semiannual basis. Given the fact that Energy  
6 Transition Charges do not become effective on the transaction closing day, and also  
7 considering the expected billing cycles and other lags in collections, it will take  
8 some time for the full expected cash flow from Energy Transition Charges to be  
9 realized. The nine-month initial period allows more time for the full amount of  
10 expected Energy Transition Charge revenues to become available, and also  
11 provides for a mandatory true-up adjustment prior to the first debt service payment,  
12 to mitigate the transaction revenue impact of any unexpected changes in the PNM  
13 customer base or revenues.



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**PNM Table CNA-1**

Assumptions		Capital Structure																		
Class	Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)	Class	Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)	
Total Debt	\$300,000,000																			
Scheduled Maturity (year)	24.8	2yr UST	0.12%	+25	0.37%	2.2	0.8 - 3.8	3.8	6.8	A-1	\$31,500,000	2yr UST	0.12%	+25	0.37%	2.2	0.8 - 3.8	3.8	6.8	
Legal Final (year)	27.8	5yr UST	0.36%	+58	0.94%	5.5	3.8 - 7.3	7.3	10.3	A-2	39,900,000	5yr UST	0.36%	+58	0.94%	5.5	3.8 - 7.3	7.3	10.3	
Annual Servicing Fee	\$150,000	10yr UST	0.92%	+93	1.85%	11.5	7.3 - 15.3	15.3	18.3	A-3	93,300,000	10yr UST	0.92%	+93	1.85%	11.5	7.3 - 15.3	15.3	18.3	
Ongoing Expenses	\$324,965	20yr UST	1.44%	+110	2.54%	18.1	15.3 - 20.8	20.8	23.8	A-4	68,100,000	20yr UST	1.44%	+110	2.54%	18.1	15.3 - 20.8	20.8	23.8	
Payment Frequency	Semi-Annual	20yr UST	1.44%	+141	2.85%	22.8	20.8 - 24.8	24.8	27.8	A-5	67,200,000	20yr UST	1.44%	+141	2.85%	22.8	20.8 - 24.8	24.8	27.8	
<b>Total / WA<sup>(2)</sup></b>	<b>\$300,000,000</b>		<b>1.23%</b>	<b>+113</b>	<b>2.35%</b>	<b>13.8</b>	<b>0.8 - 24.8</b>	<b>24.8</b>	<b>27.8</b>											

(1) Benchmark rates as of 12/31/20.

(2) Weighted average benchmark rate, spread, and coupon are weighted based on tranche balance and WAL.

Revenues (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28			
Revenue Requirement (Debt Svc & Expenses)	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7		
Actual Collections	17.1	16.8	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	
Less: Servicing Fee Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Plus: Capital Subaccount Draw / (Deposit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Cash Flow Available for Debt Service	16.7	16.3	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2

Bond Cash Flow (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28					
Class A-1 Beginning Balance	31.5	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Class A-1 Interest	0.1	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Class A-1 Principal	8.9	10.4	10.4	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Class A-1 Ending Balance	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Class A-2 Beginning Balance	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Class A-2 Interest	0.5	0.4	0.4	0.4	0.3	0.2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	-	8.7	10.6	10.7	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	93.3	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.2	1.0	0.8	0.6	0.4	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	-	0.8	10.9	11.1	11.3	11.5	11.7	12.0	12.2	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.3	1.0	0.6	0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7	12.7	13.0	13.3	13.7	14.0	0.8	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Ending Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Beginning Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Class A-5 Interest	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Ending Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2

Note: Cash Flow Available for Debt Service may not equal total Interest and Principal paid due to rounding or the availability of funds in the Excess Funds Subaccount. Cash flow is assume 9 months between closing date and first payment date and that the first true-up is effective 6 months after closing. Subsequent true-ups occur semi-annually in between payment dates.

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Notes:

- (1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing.
- (2) Structure is based in part upon information supplied by the Company which is believed to be reliable but has not been verified. Potential application of franchise fees and gross receipts taxes is not reflected in the ongoing cost amounts. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.
- (3) Assumes the forecast for power consumption, customer numbers and average collection curve provided by the Company.
- (4) Assumes “AAAsf” ratings.
- (5) Assumes no collections for the first two months of the transaction.
- (6) Benchmark rates as of December 31, 2020.
- (7) Weighted average benchmark rate, spread, and coupon weighted based on tranche balances and WALs.

Please note that these terms are preliminary and estimated based on current market conditions. The final terms and conditions of the Energy Transition Bonds will not be known until they have been priced in the marketplace. Investor demand at the time of pricing will determine market-clearing interest rates and the final structure offered to investors. Therefore, this preliminary structure and pricing information is illustrative and subject to change, and the actual structure and pricing will differ, and may differ materially from this preliminary structure.

As you will note, the preliminary structure of the Bonds includes five tranches. Further details are included in PNM Exhibit CNA-4. The structure shown is designed, as of December 31, 2020, to provide an efficient distribution of securities across the maturity spectrum and thus the lowest weighted average cost of funds to the issuer given the targeted approximate 25-year scheduled final maturity. The level of Energy Transition Charges paid by the Company’s customers is directly affected by interest rates and the principal amortization structure of the Energy

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1 Transition Bonds. Because of the expected size of the transaction, several tranches  
2 (*i.e.*, individual bond tranches with different maturities and average lives) can be  
3 structured to take advantage of discrete pockets of investor demand across the entire  
4 term of the transaction and to maintain large enough tranche sizes to ensure  
5 secondary market liquidity for the Bonds, which is a consideration for investors  
6 during the bond marketing and pricing process. Liquidity in this context refers to  
7 the ability of a bondholder to sell the bond in the secondary market without having  
8 to discount significantly its price.

9  
10 Average life is a measure of the average amount of time it takes to repay in full the  
11 principal balance of a bond tranche. Regularly scheduled principal amortization  
12 throughout the life of the transaction, as opposed to a single bullet maturity, results  
13 in a shorter average life for the financing and lower interest costs, resulting in lower  
14 Energy Transition Charges for customers. Investors have nearly universally seen  
15 and accepted semiannual or quarterly amortization in these transactions. I have  
16 advised the Company that the proposed transaction should have a relatively level  
17 annual debt service and associated revenue requirement, such that as the  
18 Company's customer population and customer consumption may increase, all other  
19 things being equal, the Energy Transition Charges may be adjusted downward over  
20 the life of the transaction. Rating agency "AAA" or equivalent stress assumptions  
21 would tend to more severely impact transactions that significantly back-load debt  
22 service.

23

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1 As previously noted, rating agency requirements and investor demand at the time  
2 of pricing will determine market-clearing interest rates and the final tranching  
3 offered to investors. Therefore, the structure and pricing information presented  
4 here are preliminary and subject to change, and the actual structure and pricing can  
5 be expected to differ, perhaps materially, from the information provided in PNM  
6 Table CNA-1 and PNM Exhibit CNA-4.

7

8 **Q. PLEASE PROVIDE ADDITIONAL DETAILS AROUND THE**  
9 **PRELIMINARY STRUCTURE OF THE BONDS.**

10 **A.** Further details of the preliminary bond structure are provided in PNM Exhibit  
11 CNA-4, which outlines some of the structuring assumptions and displays the  
12 preliminary annual debt service schedules and annual revenue requirements.

13

14 **Q. PLEASE DESCRIBE THE MECHANICS IN TERMS OF HOW THE**  
15 **BONDS ARE PRICED.**

16 **A.** The starting point for how each bond tranche is priced is the corresponding  
17 benchmark rate. In the preliminary structure above, U.S. Treasury benchmarks are  
18 listed. These benchmark rates are matched with the weighted average life of each  
19 tranche. Average life is a measure of the average amount of time it is expected to  
20 take to repay the principal balance of a bond tranche in full. The Treasury  
21 benchmark reflects the “risk-free” yield investors generally associate with  
22 securities issued by the United States Treasury. Some investors, particularly ABS  
23 investors, may evaluate the transaction from the perspective of swap benchmarks.

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1 Swap benchmarks reflect the yield demanded by investors for non-Treasury  
2 securities of similar terms, without regard to any further credit spread. Yields  
3 demanded by investors in the interest rate swap market for different terms are the  
4 basis for the swap benchmarks for similar terms. Investors in the ABS market  
5 generally use swap rates as benchmarks, whereas investors in the corporate bond  
6 market typically use Treasury rates as benchmarks. An effective marketing strategy  
7 for the Company transaction should enable investors to evaluate the transaction  
8 from the perspective of either or both benchmarks.

9  
10 The next consideration is the credit spread, which is generally the amount of yield  
11 above the given benchmark that is required by the marketplace to invest in the given  
12 bond tranche. To state the obvious, issuers would like this credit spread to be as  
13 small, or tight, as possible to the underlying benchmark (thereby lowering the  
14 coupon) and investors would like it to be higher, or wider, versus the underlying  
15 benchmark, all else being equal. While corporate investors assessing the  
16 attractiveness of a utility securitization may readily convert swap benchmarks to  
17 Treasury benchmarks, and thereby adjust proposed credit spreads accordingly, for  
18 investor convenience, underwriters sometimes give proposed price guidance to  
19 investors reflecting both benchmarks. The pricing credit spread is ultimately  
20 determined by market-clearing rates at the conclusion of the marketing process.

21

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1 **Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL**  
2 **MATURITY AND LEGAL FINAL MATURITY?**

3 **A.** I briefly addressed this topic above in the context of the basic discussion of  
4 securitization and will address it more fully here. The scheduled final maturity of  
5 the Energy Transition Bonds represents the date at which final payment is expected  
6 to be made, but no legal obligation exists to retire the tranche in full by that date.  
7 The rated legal final maturity is the date by which the bond principal must be paid  
8 or a default will be declared. The proposed preliminary structure for this  
9 transaction utilizes a legal maturity that is approximately 36 months longer than the  
10 scheduled maturity for each bond tranche, known as a “maturity cushion.” The  
11 actual maturity cushion will be determined by the final “AAA” stress scenarios  
12 required by the rating agencies during the rating process for the Bonds and may be  
13 shorter or longer than 36 months. The difference between the scheduled final  
14 maturity and legal final maturity provides additional credit protection by allowing  
15 shortfalls in principal payments to be recovered over this additional period due to  
16 any unforeseen circumstance. This gap between the two maturity dates is a benefit  
17 to the Issuer and contributes to the strong credit quality of the transaction, helping  
18 lower the cost of funds on the Bonds and therefore benefitting customers.  
19 Moreover, many investors in utility securitization are familiar with this concept,  
20 which occurs in most ABS transactions. The ratings on the Bonds are derived in  
21 part based on the assumption that the outstanding principal amount of the tranche  
22 will be paid in full by its legal final maturity date, and investors price the Bonds

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1           assuming the Bonds make the final scheduled principal payment in full at the earlier  
2           scheduled final maturity date.

3

4       **Q.   SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC, SEC-**  
5       **REGISTERED TRANSACTION?**

6       **A.**   I recommend that the Bonds be marketed via an SEC-registered, public offering.  
7           In general, SEC-registered transactions are considered to be more liquid than Rule  
8           144A or other private placement transactions. Publicly offered transactions are not  
9           limited to “qualified institutional investors” or “accredited investors” upon initial  
10          issuance or resale, as privately placed transactions are, and this broader potential  
11          investor universe will potentially be more attractive to investors and more likely to  
12          obtain lower interest rate coupons on any particular pricing day.

13

14       **Q.   WILL THE ENERGY TRANSITION BONDS PAY FIXED OR FLOATING**  
15       **INTEREST RATES?**

16       **A.**   I recommend that the Energy Transition Bonds be issued as fixed-rate securities.  
17          First, most utility securitizations have been issued as fixed rate bonds to date.  
18          Second, fixed interest rates are necessary to maintain predictable revenue  
19          requirements over time. Maintaining predictable revenue requirements facilitates  
20          the ongoing management of the customer charge adjustment (or “true-up”) process.  
21          If floating rate bonds were issued, interest rate swaps would be required to create a  
22          fixed rate payment obligation. The use of interest rate swaps would create added  
23          risks for customers. For example, a swap incorporated as a part of the securitization

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1 structure would require an additional counterparty, so there is a risk of a ratings  
2 downgrade of or a default by the counterparty providing the swap.

3

4 **Q. ARE THERE OTHER IMPORTANT CONSIDERATIONS REGARDING**  
5 **THE PRELIMINARY STRUCTURE OF THE BONDS?**

6 **A.** Yes, I reiterate that it will be beneficial for the Energy Transition Bonds to be  
7 structured to have substantially level annual debt service. This is important because  
8 it will facilitate a modest decline in the aggregate Energy Transition Charges over  
9 the life of the Bonds, assuming actual load growth.

10

11 ***B. Energy Transition Charge Collection***

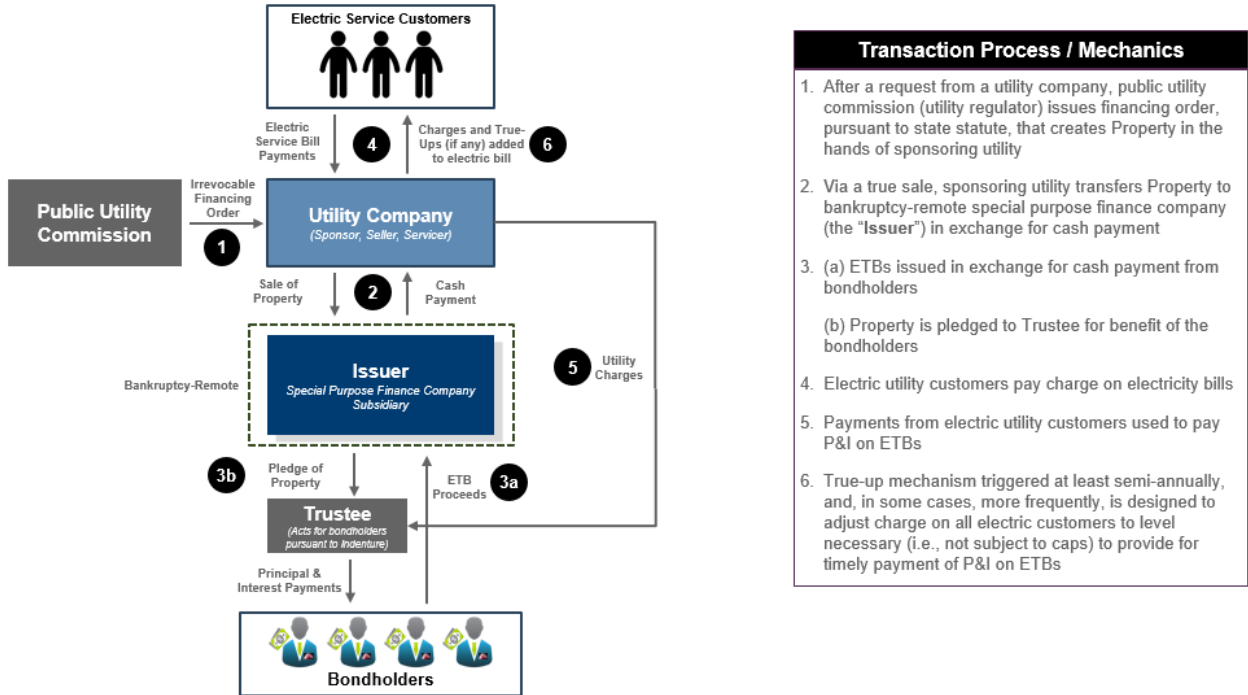
12 **Q. PLEASE DESCRIBE THE ONGOING BILLING, COLLECTING, AND**  
13 **REMITTING OF THE ENERGY TRANSITION CHARGES OVER THE**  
14 **LIFE OF THE TRANSACTION.**

15 **A.** The Company, as Servicer, will be responsible for billing and collecting Energy  
16 Transition Charges from customers. The procedures for remitting Energy  
17 Transition Charges to the Trustee will be established through a Servicing  
18 Agreement, a draft form of which is attached to PNM Witness Sanchez's testimony.  
19 Energy Transition Charges will be remitted by the Company to the Trustee each  
20 business day (based on estimated amounts collected), with cash held no more than  
21 two business days prior to remittance. The Trustee will then hold the amounts  
22 remitted to it by the Company until the next payment date. These payment dates



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1 will generally occur twice a year, as is customary in utility securitizations. An  
2 illustrative diagram for utility securitizations rate reduction bonds is included  
3 below:



4

5 It is also important to discuss briefly the requirement in the proposed Financing  
6 Order that third party energy providers collect the Energy Transition Charges under  
7 certain circumstances. While I understand that New Mexico law does not currently  
8 authorize third party energy providers to provide public utility services, it is  
9 important that the Financing Order ensure that such third parties, in the event there  
10 is any change in utility regulation, bill and collect the Energy Transition Charges  
11 in a manner that will not cause any of the then-current credit ratings of the Energy  
12 Transition Bonds to be suspended, withdrawn, or downgraded.

13

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1 **Q. PLEASE DESCRIBE IMPACTS TO PNM’S COLLECTION PROCESS IF**  
2 **ENERGY TRANSITION BONDS ARE ISSUED IN BOTH THE SJGS**  
3 **SECURITIZATION AND THE FOUR CORNERS SECURITIZATION.**

4 **A.** The energy transition bonds issued in the SJGS Securitization (the “SJGS Bonds”)  
5 and the energy transition charges supporting the SJGS Bonds (the “SJGS Charges”)  
6 will be entirely independent from the energy transition bonds to be issued in the  
7 Four Corners Securitization (the “Four Corners Bonds”) and the energy transition  
8 charges supporting the Four Corner Bonds (the “Four Corners Charges”). As  
9 discussed in the testimony of PNM Witness Settlege, the SJGS Charges and the  
10 Four Corners Charges will be presented as separate line items on customer bills.

11  
12 PNM will act as servicer for purposes of collecting and billing both the SJGS  
13 Charges and the Four Corners Charges. In the event the SJGS Bonds and the Four  
14 Corners Bonds are issued by the same SPE, we recommend that there be two  
15 separate trust indentures. PNM will separately remit collections with respect to each  
16 of these energy transition charges to the respective indenture trustee(s), and the  
17 indenture trustee(s) will deposit the amounts relating to the SJGS Charges to  
18 accounts established for the SJGS Bonds and the amounts relating to the Four  
19 Corners Charges to accounts established for the Four Corners Bonds. I expect that  
20 there will be an intercreditor agreement regarding the SJGS and Four Corners  
21 indentures.

22

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1 To my knowledge, the vast majority of utilities that have been involved in multiple  
2 utility securitizations have used a separate SPE for each issuance. In the event the  
3 SJGS Bonds and the Four Corners Bonds are issued by different SPEs, PNM will  
4 remit collections with respect to the SJGS Charges to the indenture trustee for the  
5 SJGS Bond SPE, and will remit collections with respect to the Four Corners  
6 Charges to the indenture trustee for the Four Corners Bond SPE. In this case, PNM,  
7 each SPE and the related indenture trustees will enter into an intercreditor  
8 agreement, a form of which is attached as Exhibit D to the proposed form of  
9 indenture, which will address PNM's responsibilities for the collection and  
10 remittance of these separate charges.

11

**V. DISCUSSION OF THE EXECUTION PROCESS**

12

13 ***A. Rating Agency Process***

14 **Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.**

15 **A.** An important element of preparing for the marketing and pricing of the Energy  
16 Transition Bonds is obtaining the highest ratings on the Bonds from the rating  
17 agencies. The Company and its lead underwriter will prepare written presentations  
18 and may meet with rating agency personnel to discuss the credit framework and  
19 credit strengths of the proposed Energy Transition Bonds with each hired rating  
20 agency, in compliance with SEC Rule 17g-5. It is important to note that rating  
21 agencies are completely independent institutions, and each rating agency has its  
22 own method of reviewing a utility securitization and will request certain data and

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1 information that will facilitate such a review process. Rating agencies may update  
2 or amend their rating criteria at any time. The Company's lead underwriter will  
3 work with the Company to draft presentations that contain the required data and  
4 information. Additionally, the rating agencies may require a diligence review of  
5 the Servicer's billing and collecting processes.

6

7 The ratings process also entails a review of the cash flows of the proposed structure.  
8 As part of this phase, each rating agency will ask for various cash flow stress  
9 scenarios based on its requirements and the details of the particular transaction to  
10 ensure that the Bonds will be repaid under extremely stressful cash flow  
11 projections.

12

13 Important rating elements include:

14

- Legal and regulatory framework;

15

- Political and regulatory environment;

16

- Transaction structure;

17

- Servicing review and capabilities;

18

- Service area analysis;

19

- Cash flow stress analysis; and

20

- Size of the Energy Transition Charges for the SJGS bonds and the FCPP

21

bonds on an aggregate basis as a percentage of the average residential

22

customer bill.

23

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1     **Q.    IN YOUR PREVIOUS ANSWER, YOU MENTIONED SEC RULE 17G-5.**  
2           **PLEASE EXPLAIN WHAT IT IS AND HOW IT WILL PERTAIN TO THIS**  
3           **EXECUTION PROCESS.**

4     **A.**    In December 2009, the U.S. Securities and Exchange Commission (the “SEC”)   
5            amended, as part of its mandate under the Dodd-Frank reform legislation, its rules   
6            regulating ratings on structured finance securities where the issuer, sponsor, or   
7            underwriter pays for the ratings on the securities. In short, the amended regulation,   
8            which I refer to here as “Rule 17g-5” is intended to provide access to ratings-related   
9            information to non-hired rating agencies so that they, if desired, could issue   
10           unsolicited ratings. In practice, however, actual unsolicited ratings are very rare.

11  
12           The rule has been in effect since June 2010. Although SEC Rule 17g-5 only directly   
13           applies to a hired rating agency, the rule requires the agency to obtain commitments   
14           from the issuer to facilitate this process, effectively passing on the requirements to   
15           issuers.

16  
17           Utility securitizations have been subject to SEC Rule 17g-5 since its   
18           implementation, and issuers and their underwriters have managed the process by   
19           maintaining most communication via email and/or recorded or transcribed phone   
20           communication. In summary, the SEC Rule 17g-5 changes the technical nature of   
21           how communication takes place during the ratings process, but it has not changed   
22           the fundamental nature of that process.

23

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1        ***B. Marketing Process***

2        **Q. PLEASE DESCRIBE THE ENERGY TRANSITION BOND MARKETING**  
3        **PROCESS.**

4        **A.** The marketing process entails a number of different phases, each uniquely tailored  
5        to the asset class, market conditions and the specifics of this contemplated  
6        transaction. The underwriter(s) will work with and make recommendations to the  
7        Company throughout the process. Key decisions at each step of the process will be  
8        made by the Company, in consultation with the lead underwriter(s). Described  
9        below are the general steps in a typical marketing process, but the actual process  
10       for the Energy Transition Bonds could vary based on the market environment at the  
11       time of marketing. Each step below should be conducted consistent with SEC rules  
12       and regulations regarding publicly registered securities offerings, including an  
13       investor suitability analysis:

14

15        **1. Pre-marketing.** Once a preliminary prospectus for the transaction is on file  
16        with the SEC, the underwriter(s) will work together to bring the bond  
17        transaction to the attention of investors, to inform them of its structure and  
18        term, and to answer directly any questions they may have. This process is  
19        generally referred to as pre-marketing. It may include an electronic  
20        roadshow, one-on-one conference calls with significant potential investors,  
21        and open conference calls, which several investors may join. The purpose of  
22        this process is to stimulate broad investor demand for the issue, so that the

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1 pricing process will result in the lowest possible interest rates reasonably  
2 consistent with market conditions at the time of pricing.

3  
4 The timing of this process and the specifics of the new issue process are also  
5 important factors. Typically, new transactions in this sector are announced to  
6 the market on Monday mornings. As one could expect, the new issue calendar  
7 may be busy at that time, so in order to get the attention of investors as they  
8 may be considering several competing new issues, certain transactions are  
9 pre-marketed, starting approximately on a Thursday or Friday. Most  
10 transactions that announce on Monday morning will target a pricing by  
11 Wednesday or Thursday (as issuers do not want to take the risk of an  
12 intervening event over a weekend); thus, a pre-marketing start date on a  
13 Thursday or Friday is designed to gain the attention of investors when they  
14 may not be busy reviewing other active new issue pricings.

15  
16 **2. Announcement.** Following pre-marketing, the transaction is officially  
17 announced to the market, which is typically done toward the start of the week  
18 (again, as mentioned above, the timing of the announcement is to ensure that  
19 a transaction prices during the same week in which it is officially announced;  
20 otherwise, issuers may be subject to unforeseen risk over a weekend). During  
21 this phase of marketing, the Energy Transition Bonds will be offered for sale  
22 to investors through the underwriter(s). The underwriter(s), in conjunction  
23 with the Issuer, will begin to discuss informally with investors the price(s) at

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1           which the Energy Transition Bonds will be offered at initial issuance, stated  
2           as a credit spread relative to the benchmark rates for each tranche. In  
3           response, investors will provide initial indications of interest, generally  
4           specifying how much of the tranche for which they intend to submit an order  
5           at a given pricing level. The underwriter(s) will be charged with keeping the  
6           master record (known as “the book”) in which all indications of interest  
7           received by the underwriter(s) from potential investors are recorded. The next  
8           phase of the transaction – price guidance – will be based on the aggregated  
9           amount of indications of interest received from investors.

10

11           **3. Price guidance.** At this stage, the underwriter(s) will send out a notice to  
12           investors with price guidance, again typically stated as a range of credit  
13           spreads stated against the given benchmark. Thereafter, investors will be  
14           invited to place firm indications through the underwriter(s) for the amount  
15           and specific tranches of Energy Transition Bonds they are willing to purchase,  
16           at certain prices and bond coupon rates. At a certain point in time, when the  
17           book has sufficient interest from investors, the underwriter(s) will stop taking  
18           orders (generally referred to as going “subject” to pricing and confirmation).  
19           The timing of this step will depend on the specifics of each transaction;  
20           however, it will obviously occur only when the book has at least an equal  
21           amount of orders for the Bonds as the anticipated aggregate principal amount  
22           of each proposed tranche (generally referred to as “fully subscribed”). There  
23           is no specific threshold beyond that, and it will depend on market conditions,



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1 the speed at which orders came in from investors and the composition of  
2 investor types in the book, to name a few factors. The underwriter(s) will  
3 exercise professional judgment in making a recommendation to take the book  
4 subject to final order confirmations, based on all relevant factors. Conversely,  
5 if the tranche is undersubscribed, the underwriter(s) may need to increase the  
6 coupon or restructure the tranching to attract sufficient investor orders to sell  
7 the entire tranche.

8  
9 **4. Determining pricing levels.** Having exercised professional judgment and  
10 taken the transaction subject to pricing and final confirmation of orders, the  
11 underwriter(s) will then work to refine the pricing levels. Based on the  
12 strength of the book, in close coordination with the Company, the  
13 underwriter(s) may adjust the pricing levels lower (or tighter). This process  
14 is generally referred to as testing the pricing levels. It is done to ensure  
15 maximum distribution of the bonds at the lowest bond yields reasonably  
16 consistent with market conditions. If a tranche is oversubscribed, the  
17 underwriter(s) may continue to lower the pricing level (thus improving  
18 execution for the issuer), provided that this adjustment does not decrease the  
19 aggregate investor interest below the size of the tranche. If a tranche is  
20 undersubscribed, the pricing level may be adjusted higher until the tranche is  
21 fully subscribed. The underwriter(s) will use professional judgment in close  
22 coordination with the Company with respect to the recommendation for the  
23 amount of tightening and number of testing attempts.

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1           **5. Launch.** Once the pricing levels have been determined for each tranche in  
2           the transaction, and the registration statement for the transaction has been  
3           declared effective by the SEC, the transaction will be launched at a specific  
4           pricing level. The intention of this stage is to declare to investors at which  
5           pricing levels, or credit spreads, the transaction will be issued. This will be  
6           the market-clearing pricing level, subject only to movements in the  
7           underlying benchmark rates.

8  
9           **6. Allocations.** At this stage, the market-clearing pricing level has been  
10          determined by the marketing process, but the final book – how much each  
11          investor will purchase – has yet to be determined. Here, the underwriter(s)  
12          will work to recommend a specific amount of Energy Transition Bonds to be  
13          sold to each investor. Each allocation depends on a number of factors; *e.g.*,  
14          the size of each investor’s indication of preliminary orders, when the investor  
15          submitted its indication, its experience in the sector, its flexibility for the  
16          pricing process, the investor type, etc. Ultimately, each investor will purchase  
17          its final allocations for the transaction.

18  
19          **7. Pricing.** Once the market-clearing pricing level and the book has been  
20          finalized, the transaction can be priced. At this stage, the underwriter(s), in  
21          close coordination with the Company will price the transaction by spotting  
22          the underlying benchmark rates and adding the credit spread to determine the

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1 coupons for each tranche. Soon after the pricing, the investor orders will be  
2 confirmed and the final prospectus will be provided to investors.

3  
4 **8. Closing.** At the conclusion of the pricing, the Company, with its  
5 underwriter(s) and legal team, will work toward finalizing the transaction  
6 documents and close the transaction, typically approximately five days after  
7 pricing.

8  
9 In summary, it is through this marketing and pricing discovery process that the  
10 actual investor market-clearing interest rates for the Energy Transition Bonds are  
11 determined. It should be noted again that this determination will be specific to the  
12 Energy Transition Bonds in question, based on the actual investor orders on the  
13 actual day of pricing.

14  
15 **VI. DISCUSSION OF THE FINANCING ORDER**

16 **Q. ARE THE TERMS OF THE FINANCING ORDER CRITICAL TO**  
17 **ACHIEVING A SUCCESSFUL ENERGY TRANSITION TRANSACTION?**

18 **A.** Yes. The Financing Order, when taken together with applicable provisions of the  
19 Energy Transition Act, establishes in strong and definitive terms the legal right of  
20 investors to receive, in the form of Energy Transition Charges, those amounts  
21 necessary to pay the interest and principal on the Bonds and other ongoing expenses  
22 in full and on a timely basis. A proposed draft of the Financing Order is provided  
23 as Exhibit-2 to the Consolidated Application.

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1 As mentioned earlier, the Financing Order specifies the mechanisms and structures  
2 for payments of bond interest, principal, and ongoing expenses in a manner that  
3 minimizes the amount of additional credit enhancements required by the rating  
4 agencies to achieve the highest possible ratings. The higher the bond rating, the  
5 better for customers as interest costs will be lower. In addition, the Financing  
6 Order, when taken together with applicable provisions of the Energy Transition  
7 Act, will enable the Company to structure the financing in a manner reasonably  
8 consistent with investor preferences and rating agency considerations at the time of  
9 pricing, which is also necessary for the financing to achieve the desired results.

10

11 **Q. WHAT ARE THE KEY ELEMENTS OF THE FINANCING ORDER THAT**  
12 **ARE ESSENTIAL TO ACHIEVING THE DESIRED RESULT FOR THE**  
13 **TRANSACTION?**

14 **A.** The Energy Transition Act sets out a number of key elements for the Financing  
15 Order. Once the Energy Transition Property is created, one of the most important  
16 elements is insulating the transaction from the risk of any potential bankruptcy of  
17 the Company, which is accomplished via a legal “true sale” of the Energy  
18 Transaction Property to the SPE. The structure utilized with this transaction, along  
19 with other securitizations, relies on techniques that allow the rating agencies and  
20 investors to conclude that the issuer of the securitization, the SPE, is highly unlikely  
21 to become the subject of a bankruptcy proceeding in the unlikely event of a  
22 bankruptcy of the Company. Under the federal bankruptcy code, payments on the  
23 debt obligations of an issuer in a bankruptcy proceeding become subject to an

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1           automatic stay – *i.e.*, the payments are suspended until the courts decide which  
2           creditors of the issuer are to be paid, when they will be paid, and whether they are  
3           to be paid in whole or in part. Unless the risk of an automatic stay in the unlikely  
4           event of a bankruptcy of the Company is essentially removed from the rating  
5           agencies’ credit analysis, the financing cannot achieve the highest possible ratings,  
6           since the Company’s secured debt obligations are rated below “AAA.”

7

8           In addition, the creation of the bankruptcy-remote SPE, which is legally distinct  
9           from the Company, is designed to limit the ability of the SPE to be included with  
10          the Company in the unlikely event of a Company bankruptcy. Therefore, even if  
11          the Company were to declare bankruptcy, the SPE would not become the subject  
12          of the Company’s bankruptcy proceeding, and the SPE’s debt service payments to  
13          investors would not be subject to the Company automatic stay. The transaction, as  
14          structured and reflected in the Financing Order, is intended to achieve this  
15          important element. This legal structure is supported by true sale and non-  
16          consolidation legal opinions from experienced legal counsel.

17

18       **Q.    ARE THERE ANY OTHER COMPONENTS OF THE FINANCING ORDER**  
19       **THAT    ARE    ESSENTIAL    TO    ESTABLISHING    THE    LEGAL**  
20       **FOUNDATION FOR THE TRANSACTION?**

21       **A.**    There are several provisions in the Financing Order that ensure that the SPE will  
22           be deemed to be bankruptcy-remote in addition to the elements mentioned above,  
23           including that the SPE will have at least one independent manager whose approval

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1 will be required for certain organizational changes or major actions of the SPE,  
2 such as a voluntarily filing for bankruptcy by the SPE. The Financing Order will  
3 also enable the transfer of the Energy Transition Property from the Company to the  
4 SPE to be a “true sale.” As discussed above, a true sale is a sale that a bankruptcy  
5 court should not overturn in the case of any Company bankruptcy. The Financing  
6 Order will allow the SPE to issue the Energy Transition Bonds, pledging the Energy  
7 Transition Property as security for payment on the Bonds.

8

9 **Q. DOES THE FINANCING ORDER PROVIDE FOR ANY CREDIT**  
10 **ENHANCEMENT TO THE TRANSACTION?**

11 **A.** Yes, in a number of forms. The primary form of credit enhancement is the true-up  
12 adjustment mechanism. The Financing Order, together with Energy Transition Act,  
13 ensures that the collection of Energy Transition Charges arising from the Energy  
14 Transition Property is expected to be sufficient to pay all amounts owed on the  
15 Energy Transition Bonds on a timely basis and in full, even in the face of dramatic  
16 reductions in electricity usage by the Company customers or dramatic increases of  
17 delinquencies and losses on payments from the Company customers. The true-up  
18 mechanism represents the most fundamental component of credit enhancement to  
19 investors and is a cornerstone of utility securitizations. True-ups are to be  
20 incorporated so that Energy Transition Charges may be adjusted on a periodic basis  
21 to correct for any over- or under-collection of non-bypassable Energy Transition  
22 Charges for any reason and to ensure that the expected collection of future Energy  
23 Transition Charges is in accordance with the payment terms of the Energy

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1 Transition Bonds. True-up adjustments will be made on a periodic basis, at least  
2 semi-annually, throughout the life of the Energy Transition Bonds in accordance  
3 with the objective of achieving the highest credit ratings per rating agency  
4 requirements and investor expectations, except that during the two years prior to  
5 the scheduled final maturity, the true-up adjustments must be conducted at least  
6 quarterly. In addition, optional adjustments are likely to be authorized to be  
7 conducted at any time. The frequency of true-up adjustments throughout the life of  
8 the Energy Transition Bonds will be described in the final offering document for  
9 the transaction and will be consistent with rating agency considerations for  
10 achieving the highest credit ratings. It is also important to note that pursuant to the  
11 Energy Transition Act, both the Energy Transition Charge customer allocation and  
12 charge assessment methodologies are subject to adjustment through the true-up  
13 adjustment process, and that the adjustment mechanism provides for cross-  
14 collateralization across customer groups. This means that the Charge  
15 methodologies may change over the life of the transaction if necessary, and that  
16 revenue declines in one customer group can be made up by energy transition charge  
17 adjustments within that customer group, as well as the other customer groups.

18

19 It is critical for rating agency purposes that, insofar as Commission action is  
20 required, true-up adjustments are automatic and implemented on an immediate  
21 basis subject only to mathematical and clerical error review. True-up adjustments  
22 will consider other ongoing financing costs as well as anticipated debt service  
23 requirements, updated electricity usage and customer count forecasts, in addition

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1 to forecasted projections of customer uncollectibles and delinquencies. Pursuant to  
2 the Energy Transition Act, the true-up adjustment mechanism shall remain in effect  
3 until the Energy Transition Bonds and all associated financing costs have been fully  
4 paid and any under-collection is recovered from customers and any over-collection  
5 is returned to customers.

6  
7 The capital subaccount funded with an amount equal to 0.50% of the initial  
8 capitalization of the Energy Transition Bond transaction, will also serve as credit  
9 enhancement of the transaction.

10  
11 Also, it is important that the Financing Order provide for flexibility to include other  
12 forms of credit enhancement and other mechanisms (*e.g.*, letters of credit,  
13 additional amounts of overcollateralization or reserve accounts, or surety bonds) to  
14 improve the marketability of the Energy Transition Bonds. None are anticipated  
15 but it is important to have such built-in flexibility. In connection with  
16 implementing any such other credit enhancement, the Company may enter into one  
17 or more “ancillary agreements.” Under Section 62-18-2(B), an “ancillary  
18 agreement” means a bond, insurance policy, letter of credit, reserve account, surety  
19 bond, interest rate lock or swap arrangement, hedging agreement, liquidity or credit  
20 support arrangement or other similar agreement or arrangement entered into in  
21 connection with the issuance of an energy transition bond that is designed to  
22 promote the credit quality and marketability of the bond or to mitigate the risk of  
23 an increase in interest rates.



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1 **Q. COULD YOU PLEASE PROVIDE SOME FURTHER EXPLANATION OF**  
2 **THESE ANCILLARY AGREEMENTS?**

3 **A.** Certainly. As discussed above, the statutory true-up mechanism to adjust the  
4 energy transition charges and the 0.5% capitalization account will serve as  
5 protections to investors against the risk of non-payment of the bonds. To provide  
6 further protection to investors against the risk of non-payment, a surety bond could  
7 be provided by a highly-rated insurance company and could be drawn upon to pay  
8 interest and principal on the bonds if at any time there was a shortfall in energy  
9 transition charge collections such that sufficient amounts were not available to pay  
10 required principal and interest. A letter of credit would work in a similar manner,  
11 but would be provided by a highly-rated financial institution. Alternatively, the  
12 size of the bond offering could be increased to fund additional reserve accounts,  
13 such as an overcollateralization account, to protect against non-payment. There  
14 would be an additional cost in implementing any of these credit enhancements. As  
15 a result, these credit enhancements would only be appropriate if the cost of the  
16 enhancement would be outweighed by a reduction in the interest rate that investors  
17 would require on the bonds.

18

19 In my prior experience with utility securitization, the statutory true-up mechanism  
20 and capitalization account have been sufficient credit enhancement and additional  
21 forms of credit enhancement have not been used. As a result, I do not anticipate  
22 any additional credit enhancements will be necessary. However, I believe it is  
23 advisable to provide flexibility in case market conditions change, as it would make

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1 sense to use one or more of these enhancements if the reduction in interest costs  
2 outweighed the cost of the credit enhancement.

3

4 **Q. PLEASE EXPAND ON YOUR USE OF THE TERM “NON-BYPASSABLE”**  
5 **IN YOUR PREVIOUS ANSWER.**

6 **A.** The Energy Transition Act and Financing Order provide that all retail customers in  
7 the Company’s service territory receiving electric delivery service from the  
8 Company or a successor must pay the Energy Transition Charges allocated to their  
9 customer class, regardless of the customers’ degree of self-generation or electric  
10 generation supplier, and whether or not the distribution system is operated by the  
11 Company or a successor. This is another important element of the Financing Order,  
12 both for the rating agency process and for investor considerations.

13

14 **Q. IN THAT CONTEXT, HOW WOULD THE CHARGE BE AFFECTED IN**  
15 **THE CASE WHERE THE COMPANY IS NO LONGER THE UTILITY IN**  
16 **THE SERVICE AREA?**

17 **A.** The Financing Order creates a binding obligation for the Company, its successors  
18 or assignees to collect the Charges for a servicing fee and allows that obligation to  
19 be performed by a replacement servicer appointed by the Trustee, if the Servicer  
20 does not so perform. Thus, the binding obligation to collect and account for Energy  
21 Transition Charges will survive any adverse event to the Servicer. This obligation  
22 is binding upon any other entity that provides service in the service territory or any

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1 other entity responsible for billing and collecting the Energy Transition Charges on  
2 the Company's behalf.

3

4 **Q. PLEASE DISCUSS THE IRREVOCABLE NATURE OF THE FINANCING**  
5 **ORDER.**

6 **A.** The Financing Order is irrevocable, and the Energy Transition Charges are not  
7 subject to reduction, alteration or impairment by any further action of the  
8 Commission, except for the mathematical and clerical error review of the formulaic  
9 true-up adjustment process. Thus, so long as the Energy Transition Bonds are  
10 outstanding, rights and benefits arising from the Energy Transition Property created  
11 by the Financing Order may be definitively relied upon by investors and the rating  
12 agencies.

13

14 Equally important, the Energy Transition Act affirms the pledge of the State not to  
15 take or permit any action that would impair the value of the Energy Transition  
16 Property authorized by the Financing Order. Investors generally perceive that one  
17 of the greatest risks to them is that there is a change in law that affects the Energy  
18 Transition Property, thereby adversely affecting their rights under Energy  
19 Transition Act or the Financing Order. The Commission's affirmation in the  
20 Financing Order of the State pledge will enhance investor understanding that the  
21 risk of an adverse change in law or regulation is remote and will permit counsel to  
22 deliver important legal opinions that such adverse changes would not be legally  
23 valid.

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1    **Q.   PLEASE DESCRIBE THE SECTIONS OF THE FINANCING ORDER**  
2           **ENTITLED, “FINDINGS OF FACT,” “CONCLUSIONS OF LAW,” AND**  
3           **“ORDERING PARAGRAPHS.”**

4    **A.**   The Findings of Fact, Conclusions of Law, and the Ordering Paragraphs of the  
5           Financing Order constitute the means by which the Commission definitively  
6           affirms the conformity of the financing with the applicable provisions of the Energy  
7           Transition Act. These provisions of the proposed Financing Order reflect the level  
8           of detail and scope that will be expected by investors and the rating agencies. With  
9           these findings and conclusions, counsel will have the basis that they need for the  
10          highly technical and specialized legal opinions they must issue in connection with  
11          the securitization financing, and upon which the rating agencies will rely in  
12          assigning the highest possible ratings for the Energy Transition Bonds. I emphasize  
13          that the provisions of the Financing Order have been drafted with a view toward  
14          providing the basis that counsel will need for these essential opinions. With the  
15          structure authorized thereby, the stability of the cash flows securing the Energy  
16          Transition Bonds will be maximized. The combination of maximized cash flow  
17          stability and highest possible ratings will allow the Energy Transition Bonds to be  
18          structured and priced so as to meet statutory requirements.

19

20   **Q.   ARE THERE ANY OTHER KEY ELEMENTS OF THE FINANCING**  
21           **ORDER UPON WHICH YOU WISH TO ELABORATE?**

22   **A.**   Yes. In addition, in the Ordering Paragraphs of the Financing Order, the  
23           Commission recognizes the need for, and affords the Company the flexibility to

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1           establish, the final terms and conditions of the Energy Transition Bonds. This  
2           flexibility will allow the Company to achieve the structure and pricing that will  
3           meet the statutory requirements, including the lowest cost objective commitment,  
4           reasonably consistent with market conditions on the day of pricing, rating agency  
5           considerations, and the terms of the Financing Order.

6

7                           **VII.   DISCUSSION OF THE SERVICING AGREEMENT**

8           **Q.   PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE**  
9           **SERVICING AGREEMENT.**

10          **A.**   The Servicing Agreement is an agreement among the Company (in its capacity as  
11          the Servicer of the Energy Transition Bonds), the Trustee, and the SPE. The  
12          agreement sets forth the responsibilities and obligations of the servicer, including,  
13          among other things, billing and collecting of Energy Transition Charges,  
14          responding to customer inquiries, terminating electric service, filing for true-up  
15          adjustments and remitting collections to the Trustee for distribution to bondholders.  
16          The Servicing Agreement prohibits the initial Servicer's ability to resign as Servicer  
17          unless (i) it is unlawful for the initial Servicer to continue in such a capacity, or (ii)  
18          the Commission consents and the rating agencies confirm the resignation would not  
19          impact the ratings on the bonds. Its resignation would not be effective until a  
20          replacement Servicer has assumed its obligations in order to continue servicing the  
21          Energy Transition Bonds without interruption. The Servicer may also be  
22          terminated from its responsibilities in certain cases upon a majority vote of

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1           bondholders, such as the failure to remit collections within a specified period. Any  
2           merger or consolidation of the Servicer with another entity would require the  
3           merged entity to assume the Servicer’s responsibility under the Servicing  
4           Agreement. The terms of the Servicing Agreement are critical to the rating agency  
5           analysis of the Energy Transition Bonds and the ability to achieve credit ratings in  
6           the highest categories.

7

8           As compensation for its role as initial Servicer, the Servicer is entitled to earn a  
9           servicing fee payable out of Energy Transition Charge collections. It is important  
10          to the rating agencies and the bankruptcy analysis of the transaction that the  
11          Company receives an arm’s-length fee as Servicer of the Energy Transition  
12          Property, and for its services as Administrator of the SPE. Utility securitizations to  
13          date have also required an increase in the servicing fee in the unlikely event the  
14          Company is no longer able to perform the servicing role, and a replacement servicer  
15          must be brought on board. Rating agencies expect that the Company will be the  
16          Servicer but assume that a replacement Servicer may require additional  
17          compensation to perform these services, without access to the Company’s existing  
18          infrastructure and customer relationships. Illustrative draft forms of both the  
19          Servicing and Administration Agreements are included with the testimony of PNM  
20          Witness Sanchez as PNM Exhibits LES-6 and LES-7.

21

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1

**VIII. CONCLUSION**

2 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

3 **A.** I believe the Financing Order, as proposed, will enable the Company to structure a  
4 transaction that can achieve the highest possible ratings and is consistent with  
5 investor preferences that will enable the Company to price at the lowest market-  
6 clearing interest costs reasonably consistent with investor demand and market  
7 conditions at the time of pricing.

8

9 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

10 **A.** Yes, it does. Thank you.

*GCG#527511*

## CHARLES N. ATKINS II

Email: [charles@atkinscapitalstrategies.com](mailto:charles@atkinscapitalstrategies.com)

### ATKINS CAPITAL STRATEGIES LLC

2020 - Present

Chief Executive Officer

Strategic consultant to companies in the utility, power and energy sectors, as well as investment banking and financial sponsor institutions. Focus on utility, contract monetization, whole business and other non-traditional securitizations, as well as corporate and structured credit analysis, and rating agency negotiations. Currently serving PNM and Duke Energy as a co-financial advisor in connection with proposed \$300 million and \$978.8 million utility securitizations, respectively

### GUGGENHEIM SECURITIES, LLC

2017 - 2020

Senior Advisor, Structured Products Origination Group, Investment Banking Division

Focus on utility, power and energy securitizations and recapitalizations, as well as new structured product development across industry sectors. Served as a financial advisor to PNM and expert witness, testified before the New Mexico Public Regulation Commission in connection with a proposed \$361 million utility securitization

### ATKINS CAPITAL STRATEGIES LLC / MAROON CAPITAL GROUP LLC

2013 – 2017

Chief Executive Officer/Partner

Strategic consultant to investment banking and financial sponsor institutions, power, utility, service and industrial companies, as well as emerging U.S. and U.K. enterprises. Served as financial advisor to Entergy and AEP in connection with 4 utility securitizations in Louisiana and West Virginia totaling \$793.8 million

- Utility securitizations
- Wireless spectrum securitizations
- Recapitalization and capital allocation
- Balance sheet optimization
- Corporate and structured credit analysis, rating agency negotiations
- Enhanced capital markets access
- Emerging enterprise business plan development and execution

### MORGAN STANLEY & CO. LLC

1990 - 2013

Executive Director, Global Capital Markets, Securitization Group

Principal focus on improving corporate capital structures, creating equity value by recapitalizing, enhancing access to the debt capital markets and lowering capital costs

- Team leader for the development of legal and credit structures for first-time structured solutions for financial sponsor and corporate clients



- Industry's leading utility securitization and corporate reorganization (ring-fencing) banker, serving as advisor and/or a lead underwriter for 24 transactions since 1997 totaling \$22.6 billion for AEP, CenterPoint, Entergy, Constellation Energy, Baltimore Gas and Electric, Oncor, West Penn, Atlantic City Electric, SDG&E and PG&E.
- Testified as a utility company expert witness before regulatory commissions in Arkansas, Louisiana, Maryland, Texas in connection with 10 transactions
- Structured five International Financing Review "Deal of the Year" transactions
  - \$965.4MM Louisiana Utilities Restoration Corporation (Entergy) – 2008 (off-balance sheet, off-credit electric system capital cost recovery)
  - \$1.9BN Crown Castle – 2005 (wireless tower company recapitalization)
  - \$418MM Global Signal – 2004 (wireless tower company recapitalization)
  - \$800MM PPL Electric – 2001 (off-credit reorganization/recapitalization)
  - \$290MM Arby's Franchise – 2000 (restaurant company recapitalization)

Developed and executed significant recapitalizations, reorganizations and acquisition financings for financial sponsor and corporate clients including

- Corporate reorganization of Constellation Energy in connection with the \$4.5 BN nuclear JV with Electricite de France, uplifting subsidiary Baltimore Gas and Electric's (BGE) ratings, removing BGE's debt from Constellation's rating agency credit ratios (off-credit)
- Restructuring and \$838MM debt recapitalization of leading security business Monitronics International, uplifting debt ratings from B1/B+ to Baa2/BBB-, lowering capital costs (an Abry Partners portfolio company)
- Restructuring and \$290MM debt recapitalization of restaurant business Arby's, uplifting ratings from B1/B+ to A3/BBB-, lowering capital costs (a Triam portfolio company)
- Restructurings and \$1.9BN, \$418MM debt recapitalizations of wireless tower businesses, Crown Castle and Global Signal, uplifting debt ratings from B1/B+ to as high as Aaa/AAA, lowering capital costs (Global Signal - a Fortress portfolio company)
- Restructuring and \$800MM debt recapitalization of PPL, issuing incremental electric transmission and distribution subsidiary debt, taking \$3BN of subsidiary debt off-credit for parent rating purposes, without changing subsidiary or parent ratings
- Structuring and executing \$800MM permanent acquisition financing for TimberStar Southwest, obtaining debt ratings to as high as Aaa/AAA/AAA, lowering capital costs (an I-Star Financial/Perry Capital/MSD Capital/York Capital portfolio company)
- Structuring and executing \$315MM permanent financing for the Staples Center arena, based upon sports team and arena revenue contracts, obtaining A ratings and lowering capital costs (an Anschutz Entertainment Group subsidiary)
- Structuring a \$33 BN student loan industry-sponsored ABCP conduit utilizing credit and liquidity support from the U.S. Government, to finance existing and newly originated federally guaranteed student loans (Straight-A Funding, LLC)

**PREVIOUS EXPERIENCE:**

<b>LEHMAN BROTHERS INC. / E.F. HUTTON INC.</b> Senior Vice President	<b>1985 - 1990</b>
<b>OFFICE OF U.S. SENATOR DAVID L. BOREN (D-OK)</b> Legislative Counsel	<b>1983, 1985</b>
<b>MONDALE-FERRARO PRESIDENTIAL CAMPAIGN</b>	<b>1984</b>

Deputy National Campaign Manager, VP Campaign

**DEMOCRATIC NATIONAL COMMITTEE**  
Deputy Director, Platform Committee

**1983 - 1984**

**THE WHITE HOUSE**  
Associate Assistant to the President

**1980 - 1981**

**AKIN, GUMP, STRAUSS, HAUER & FELD**  
Attorney, Washington, D.C. Office

**1978 - 79, 1981 - 83**

**OTHER:**

**METROPOLITAN MUSEUM OF ART**  
Board of Trustees, Elective Trustee  
Audit Committee  
External Affairs Committee  
Director Search Committee (Search Completed)  
Digital, Education, Publications, Imaging, Libraries  
and Live Arts Committee  
Diversity Committee  
Digital Visiting Committee  
Modern and Contemporary Visiting Committee  
American Wing Visiting Committee

**2013 - Present**

**AMERICAN FOLK ART MUSEUM**  
Board of Trustees, Member

**2014 - 2018**

**AMERICAN SECURITIZATION FORUM**  
Board of Directors, Alternate Board Member

**2003 - 2006**

**U. S. EXPORT-IMPORT BANK**  
Presidential Appointment, Advisory Committee

**1997 - 1998**

**PRESIDENTIAL TRANSITION COMMITTEE**  
U.S. Department of Housing and Urban Development

**1992 - 1993**

**DISTRICT OF COLUMBIA BAR**  
Member (Inactive)

**1978 - Present**

**HOWARD UNIVERSITY**  
Board of Trustees, Undergraduate Trustee

**1974 - 1975**

**EDUCATION:**

**HARVARD LAW SCHOOL, J.D.**

**1978**

- Class of 1978 Committee Representative, elected by classmates

**HOWARD UNIVERSITY, College of Arts and Sciences B.A.**

**1975**

- *Magna Cum Laude*
- Honors Program
- Phi Beta Kappa (Junior year)
- Major: Political Science / Double Minor: Math and Economics
- Howard University Board of Trustees, Undergraduate Trustee, elected by the several Undergraduate College student bodies
- College of Arts and Sciences Student Council, elected Sophomore Representative

## Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.  
(Also: §§ 61, 451 and 1001.)

### Rev. Proc. 2005-61

#### SECTION 1. PURPOSE

This revenue procedure amplifies Rev. Proc. 2005-3, 2005-1 I.R.B. 118, which sets forth areas of the Internal Revenue Code in which the Internal Revenue Service will not issue advance rulings or determination letters.

#### SECTION 2. BACKGROUND

.01 Section 3 of Rev. Proc. 2005-3 sets forth a list of those areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions & Products), the Associate Chief Counsel (Income Tax & Accounting), the Associate Chief Counsel (Passthroughs & Special Industries), the Associate Chief Counsel (Procedure and Administration), and the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities) relating to issues on which the Internal Revenue Service will not issue letter rulings or determination letters.

.02 In Rev. Proc. 2005-62, page 507, this Bulletin, the Service provides a safe harbor with respect to the tax treatment of certain cost recovery transactions by regulated investor owned utility companies.

#### SECTION 3. PROCEDURE

Rev. Proc. 2005-3 is amplified by adding the following to section 3.01: Sections 61, 451 and 1001. Gross Income Defined; General Rule for Taxable Year of Inclusion; Determination of Amount and Recognition of Gain or Loss. Whether, under authorization by an appropriate State agency to recover certain costs pursuant to State specified cost recovery legislation, any investor-owned utility company realizes income upon: (1) the creation of an intangible property right; (2) the transfer of that intangible property right; or (3) the securitization of the intangible property right.

#### SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2005-3 is amplified.

#### SECTION 5. EFFECTIVE DATE

This revenue procedure applies to all ruling requests pending or submitted after September 12, 2005.

#### SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622-3970 (not a toll-free call).

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*26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.  
(Also: Part 1, §§ 61, 451, 1001.)*

### Rev. Proc. 2005-62

#### SECTION 1. PURPOSE

This revenue procedure sets forth the manner in which a public utility company may treat the issuance of a financing order by a State agency authorizing the recovery of certain specified costs incurred by the utility and the securitization of the rights created by that financing order.

#### SECTION 2. BACKGROUND

Revenue Procedure 2002-49, 2002-2 C.B. 172, provides a safe-harbor regarding the treatment of legislatively authorized transactions entered into by investor-owned electric utilities to recover transition costs resulting from the restructuring of the electric utility industry and the institution of a competitive marketplace. Some States enacted legislation to allow the recovery of these transition costs through a non-bypassable surcharge to customers within a utility's historic service area.

Utilities continue to operate in wholly or partially regulated environments and

maintain exclusive distribution networks for customers in their historic service areas. Rates charged for these operations are determined by local authorities to allow for the recovery of costs and an appropriate return on capital. Some States have enacted legislation that allows utilities to recover certain specified costs through a surcharge based on consumption by customers within the utilities' historic service areas and also authorizes securitization of the surcharge. These statutes are unique to regulated utilities. Accordingly, the tax treatment allowed by this revenue procedure for these transactions is peculiar to this situation. See Revenue Procedure 2005-61, page 507, this Bulletin, which adds certain related issues to areas in which rulings or determination letters will not be issued.

#### SECTION 3. CHANGES

The scope of Revenue Procedure 2002-49 was limited to transition costs that resulted from the deregulation of the generation operations of electric utility companies. This revenue procedure expands the scope of Revenue Procedure 2002-49 to all public utility companies, and costs that are recoverable through a securitization mechanism are not limited to transition costs. Additionally, this revenue procedure eliminates certain requirements in section 4.04(3) of Revenue Procedure 2002-49 relating to level payments and now requires that payments be made on a quarterly or semiannual basis.

#### SECTION 4. SCOPE

This revenue procedure applies to investor-owned public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable financing order from an appropriate State agency that determines the amount of certain specified costs the utility will be permitted to recover through qualifying securitization of an intangible property right created by the special legislation.

## SECTION 5. DEFINITIONS

### .01 PUBLIC UTILITY

For purposes of this revenue procedure, the terms “public utility” or “utility” refer to any investor owned utility company (electric or non-electric) that is subject to the regulatory authority of a State public utility commission or other appropriate State agency.

### .02 SPECIFIED COST RECOVERY LEGISLATION

For purposes of this revenue procedure, specified cost recovery legislation is legislation that—

(1) Is enacted by a State to facilitate the recovery of certain specified costs incurred by a public utility company;

(2) Authorizes the utility to apply for, and authorizes the public utility commission or other appropriate State agency to issue, a financing order determining the amount of specified costs the utility will be allowed to recover;

(3) Provides that pursuant to the financing order, the utility acquires an intangible property right to charge, collect, and receive amounts necessary to provide for the full recovery of the specified costs determined to be recoverable, and assures that the charges are non-bypassable and will be paid by customers within the utility’s historic service territory who receive utility goods or services through the utility’s transmission and distribution system, even if those customers elect to purchase these goods or services from a third party;

(4) Guarantees that neither the State nor any of its agencies has the authority to rescind or amend the financing order, to revise the amount of specified costs, or in any way to reduce or impair the value of the intangible property right, except as may be contemplated by periodic adjustments authorized by the specified cost recovery legislation;

(5) Provides procedures assuring that the sale, assignment, or other transfer of the intangible property right from the utility to a financing entity that is wholly owned, directly or indirectly, by the utility will be perfected under State law as an absolute transfer of the utility’s right, title, and interest in the property; and

(6) Authorizes the securitization of the intangible property right to recover the fixed amount of specified costs through the issuance of bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interest that are issued pursuant to an indenture, contract, or other agreement of a utility or a financing entity that is wholly owned, directly or indirectly, by the utility.

### .03 SPECIFIED COSTS

For purposes of this revenue procedure, specified costs are those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation.

### .04 QUALIFYING SECURITIZATION

For purposes of this revenue procedure, a qualifying securitization is an issuance of any bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interests that—

(1) Is secured by the intangible property right to collect charges for the recovery of specified costs and such other assets, if any, of the financing entity that is wholly owned, directly or indirectly, by the utility;

(2) Is issued by a financing entity that is wholly owned, directly or indirectly, by the utility that is initially capitalized by the utility in such a way that equity interests in the financing entity are at least 0.5 percent of the aggregate principal amount of the non-equity instruments issued; and

(3) Provides for payments on a quarterly or semiannual basis.

## SECTION 6. APPLICATION

.01 The utility will be treated as not recognizing gross income upon—

(1) The receipt of a financing order that creates an intangible property right in the amount of the specified costs that may be recovered through securitization;

(2) The receipt of cash or other valuable consideration in exchange for the transfer of that property right to a financing entity that is wholly owned, directly or indirectly, by the utility; or

(3) The receipt of cash or other valuable consideration in exchange for securitized instruments issued by the financing entity that is wholly owned, directly or indirectly, by the utility.

.02 The securitized instruments described in Section 5.04 will be treated as obligations of the utility.

.03 The non-bypassable charges are gross income to the utility recognized under the utility’s usual method of accounting.

## SECTION 7. EFFECT ON OTHER DOCUMENTS

This document modifies, amplifies, and supersedes Rev. Proc. 2002–49.

## SECTION 8. EFFECTIVE DATE

This revenue procedure is effective September 12, 2005.

## SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

Investor Owned Utility Securitization Transactions, 1997 – 2019

#	Issuer	Deal Amount (\$)	Pricing Date
1	AEP Texas Restoration Funding LLC	\$235,282,000	9/11/2019
2	Public Service New Hampshire Funding Llc.	635,663,200	5/1/2018
3	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
4	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
5	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
6	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
7	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
8	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
9	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
10	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
11	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
12	AEP Texas Central Funding III	800,000,000	3/7/2012
13	Centerpoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
14	Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
15	Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
16	Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
17	Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
18	MP Environmental Funding LLC	64,380,000	12/16/2009
19	PE Environmental Funding LLC	21,510,000	12/16/2009
20	CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
21	Entergy Texas Restoration Funding	545,900,000	10/29/2009
22	Louisiana Public Facilities Authority	278,400,000	8/20/2008
23	Louisiana Public Facilities Authority	687,700,000	7/22/2008
24	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
25	CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
26	Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
27	RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
28	FPL Recovery Funding LLC	652,000,000	5/15/2007
29	MP Environmental Funding LLC	344,475,000	4/3/2007
30	PE Environmental Funding, LLC	114,825,000	4/3/2007
31	AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
32	JCP&L Transition Funding II	182,400,000	8/4/2006
33	Centerpoint Energy Series A	1,851,000,000	12/9/2005
34	PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
35	West Penn Power	115,000,000	9/22/2005
36	PSE&G 2005-1	102,700,000	9/9/2005
37	Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005

#	Issuer	Deal Amount (\$)	Pricing Date
38	PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
39	Rockland Electric Company	46,300,000	7/28/2004
40	Oncor (TXU) 2004-1	789,777,000	5/28/2004
41	Atlantic City Electric	152,000,000	12/18/2003
42	Oncor 2003-1	500,000,000	8/14/2003
43	Atlantic City Electric	440,000,000	12/11/2002
44	JCP&L Transition Funding LLC	320,000,000	6/4/2002
45	CPL Transition Funding LLC	797,334,897	1/31/2002
46	PSNH Funding LLC 2	50,000,000	1/16/2002
47	Consumers Funding LLC	468,592,000	10/31/2001
48	CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
49	Western Mass Electric	155,000,000	5/14/2001
50	PSNH Funding LLC	525,000,000	4/20/2001
51	CL&P Funding LLC	1,438,400,000	3/27/2001
52	Detroit Edison 2001-1	1,750,000,000	3/2/2001
53	PECO 2001-A	805,500,000	2/15/2001
54	PSE&G 2001-A	2,525,000,000	1/25/2001
55	PECO 2000-A	1,000,000,000	4/27/2000
56	West Penn Power	600,000,000	11/3/1999
57	Pennsylvania Power & Light	2,420,000,000	7/29/1999
58	Boston Edison	725,000,000	7/27/1999
59	Sierra Pacific Power	24,000,000	4/8/1999
60	PECO Energy	4,000,100,000	3/18/1999
61	Montana Power	64,000,000	12/22/1998
62	Illinois Power	864,000,000	12/10/1998
63	Commonwealth Edison	3,400,000,000	12/7/1998
64	San Diego Gas & Electric	657,900,000	12/4/1997
65	Southern California Edison	2,463,000,000	12/4/1997
66	Pacific Gas & Electric	2,901,000,000	11/25/1997
<b>Total</b>		<b>\$50,763,038,097</b>	

Source: Guggenheim Securities; SEC Registration Statements

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**SECURITIES FIRM MEMORANDUM**

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**To:** Public Service Company of New Mexico

**From:** Kosta Karantzoulis, Senior Advisor  
Guggenheim Securities, LLC

**Date:** January 8, 2021

**Re:** Public Service Company of New Mexico’s Request for a Financing Order

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The following memorandum has been prepared on behalf of the Public Service Company of New Mexico (“PNM”) in connection with its request for a financing order from the New Mexico Public Regulation Commission enabling PNM to use securitization as a means to finance certain Energy Transition Costs associated with the proposed abandonment of PNM’s investment in the Four Corners Power Plant. This memorandum is not to be used for any other purpose or relied upon by any other persons. Please refer to the notice at the end of this memorandum for important additional information.

## I. EXECUTIVE SUMMARY

Section 62-18-4 (b) (5) of the Energy Transition Act, NMSA 1978, §§ 62-18-1 to -23 (2019) (“ETA”) requires, as a part of an application for a Financing Order requesting the authorization to sponsor the issuance of Energy Transition Bonds, the preparation and inclusion of:

“a memorandum with supporting exhibits from a securities firm, such firm to be attested to by the State Board of Finance as being experienced in the marketing of bonds and capable of providing such a memorandum, that the proposed issuance satisfies the current published AAA rating or equivalent rating criteria of at least one nationally recognized statistical rating organization for issuances similar to the proposed energy transition bonds...”

The State Board of Finance on December 15, 2020 issued the required attestation, addressed to the New Mexico Public Regulation Commission. This attestation is attached to this memorandum (“Memorandum”) as Supporting Exhibit-1.

Fitch Ratings, Inc. (“Fitch”) is a nationally recognized statistical rating organization that has published “AAA” criteria for bond issuances similar to the proposed Energy Transition Bonds: “U.S. Utility Tariff/Stranded Cost Bonds Rating Criteria,” December 10, 2019 (the “Fitch Criteria”). The Fitch Criteria are attached as Supporting Exhibit-2.

We have reviewed the Fitch Criteria, and we have compared key elements of the proposed Energy Transition Bond transaction with those criteria. Our comparison, which includes the preparation of Fitch AAAsf stress cash flow scenarios based upon data provided to us by PNM, indicates that the proposed PNM-sponsored securitization transaction satisfies the Fitch Criteria. (Fitch adds the “sf” designation to structured finance ratings.) These cash flow scenarios are subject to change as market bond interest rates, PNM data, and Fitch Criteria may vary or change.

This Memorandum describes our comparison and provides Supporting Exhibits. We note that rating agencies are independent companies, and their criteria are subject to future revisions, which may or may not be significant.

## II. OVERVIEW OF FITCH CRITERIA

### Key Rating Drivers

The Fitch Criteria provide that the following key rating drivers are of equal importance to their rating analysis:

- Legal Risks and Regulatory Framework
- Credit Analysis (Revenue Stability)
- Structural and Cash Flow Analysis








Legal and Regulatory Framework: We have compared the Fitch Criteria with key provisions of the ETA, as well as the proposed Financing Order included as part of PNM’s Financing Order Application. Fitch emphasizes that the legal and regulatory framework must provide that the cash flow derived from the Energy Transition Property and Energy Transition Charges will not be impaired or diminished.

Credit Analysis (Revenue Stability): The Fitch Criteria require a review of the various categories of customers within the utility service territory, as well as the size of the charge as a percentage of the total residential customer bill. In Fitch’s view excessive charges may present additional political or regulatory risks.

Structural and Cash Flow Analysis: Several stress case cash flow scenarios are required by the Fitch Criteria to test the various stressed assumptions, such as forecast variances, delinquencies and charge-offs, loss of industrial customers, and the annual loss of revenues from the peak consumption month, among others.

The following pages summarize our comparison of the Fitch key rating drivers with elements and AAAsf stress case cash flow scenarios for the proposed PNM Energy Transition Bond transaction.

**Legal Risks and Regulatory Framework**

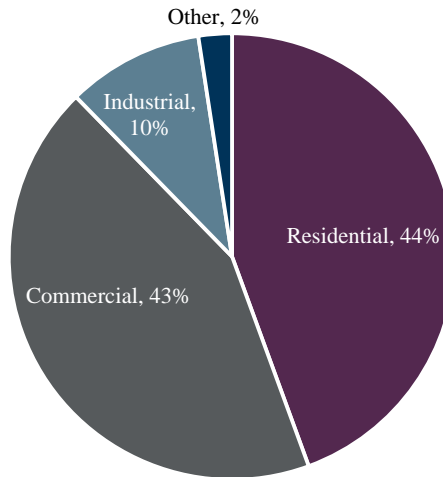
Characteristic	Description	PNM Transaction Meets Criteria?
<b>Property Right</b>	<ul style="list-style-type: none"> <li>▪ The financing order should establish future special tariff collections as a property right that can be transferred in a true sale and pledged as a security interest</li> <li>▪ The amount of the special tariff, as well as the rules for its collection, should be defined in the order approved by the commission or the equivalent agency of the state in the relevant state</li> </ul>	 ETA, Sec.62-18-2 I
<b>Irrevocability and State Support</b>	<ul style="list-style-type: none"> <li>▪ Irrevocability of the special tariff and the State Pledge prohibits the legislature, the commission or any other agency or governmental entity from rescinding, altering or amending the special tariffs or property rights in any way that would reduce or impair their value</li> <li>▪ Fitch considers irrevocability and the State Pledge an important protection against changing political agendas in the legislative or executive branches of government. It represents a high level of assurance of state regulatory action in support of the revenue requirements of tariff bonds</li> </ul>	 ETA Sec. 62-18-7 A, -19 A
<b>Bankruptcy Remote/True Sale</b>	<ul style="list-style-type: none"> <li>▪ The statute or order is expected to protect bondholders from the interruption or impairment of cash flows in the event of a utility bankruptcy</li> <li>▪ It is also expected to provide that the transfer of property rights to the trust will be treated as an absolute transfer, not as a pledge, of the seller’s right to, title to and interest in the property</li> </ul>	 ETA Sec. 62-18-14 A
<b>Utility Successor Requirements</b>	<ul style="list-style-type: none"> <li>▪ To effectively de-link the rating of tariff bonds from that of the utility, Fitch considers it essential that the order create an obligation on the commission to ensure that, in the event of the incumbent utility’s sale or bankruptcy, any successor to the utility be treated as a successor and be required to continue servicing the tariff bonds to avoid disruption in billing and collecting</li> </ul>	 ETA Sec. Section 62-18-9 B, C
<b>Third-Party Energy Providers</b>	<ul style="list-style-type: none"> <li>▪ If the statute or order allows for third-party consolidated billing, a typical result is the imposition of minimum credit quality or collateral requirements on parties wishing to assume this service</li> <li>▪ Fitch expects these guidelines to define the circumstances in which a third-party provider would be replaced either by the incumbent utility or an alternate servicer (Not currently applicable in New Mexico)</li> </ul>	 Not Applicable
<b>True-Up Mechanism</b>	<ul style="list-style-type: none"> <li>▪ The true-up mechanism is the most significant credit component for utility transactions</li> <li>▪ The absence of a true-up mechanism could limit the ability to assign a AAAsf rating</li> </ul>	 ETA Sec. 62-18-6
<b>Non-Bypassability</b>	<ul style="list-style-type: none"> <li>▪ The statute should provide that the special tariffs are non-bypassable, implying that a utility can collect these charges from all existing retail customers and all future retail customers within the service territory without any (or with a few) exceptions</li> <li>▪ Instances where covenants related to non-bypassability that allow for weaker provisions (that allow for significant exceptions) would not be consistent with a AAAsf rating</li> </ul>	 ETA Sec. 62-18-2 G, P

**Credit Analysis**

Characteristic	Description	PNM Transaction Meets Criteria?
<p><b>Customer Base</b></p>	<ul style="list-style-type: none"> <li>▪ Fitch reviews a number of economic factors in its analysis of the customer base, including the size and shape of the service territory (the geographic footprint), diversity of the customer pool, change in housing starts during recessionary periods, exposure to key industries, cyclicalities of key industries, historical recessionary bankruptcy data and existence of any major military bases in the territory</li> <li>▪ These qualitative factors help Fitch develop an understanding of the utilities’ customer base, which, ultimately, provides the cash flows to pay the liabilities of the trust</li> <li>▪ The residential segment will provide a high level of customer diversification, similar to that found in credit card receivables ABS transactions. Since the special tariff is assessed against a household rather than an individual, it is assumed that the majority of residents moving away from a service territory will be replaced with new residents. Thus, the residential segment tends to be a large, diversified and relatively stable source of cash flow</li> <li>▪ Cross-collateralization across customer classes through the true-up mitigates risk, since all customers bear responsibility to make up for revenue shortfalls from any particular customer class</li> </ul>	<p style="text-align: center;">✓</p>
<p><b>Size of Dedicated Tariff Component</b></p>	<ul style="list-style-type: none"> <li>▪ Fitch believes that when the special tariff is a relatively small portion of customers’ all-in cost of utility service, increases in the tariff under the true-up mechanism are less likely to reduce consumers’ demand for utility services or to stimulate consumers to adopt alternative, off-the-grid energy services</li> <li>▪ Fitch believes that special tariffs (under all scenarios) in excess of 20% of the customer bill over a long financing term would generally be inconsistent with a AAAsf rating</li> </ul>	<p style="text-align: center;">✓</p>

**A description of PNM’s customer base and customer charge types per customer class follows on the next page.**

**Customer Base Concentration**  
(Based on Last 5 Years of Revenue)









Customer Class Descriptions			
Class	Description	Charge Type	Customer Type
1 (Block 1)	Residential - Block 1	\$/Customer	Residential
1 (Block 3)	Residential - Block 3	\$/Customer	Residential
2	Small Power	\$/Customer	Commercial
3B	General Power	\$/kW	Commercial
3D	Pilot Municipalities and Counties General Power - TOU	\$/kW	Commercial
3C	General Power LLF	\$/kW	Commercial
3E	Pilot Municipalities and Counties General Power Low LF - TOU	\$/kW	Commercial
4B	Large Power	\$/kW	Commercial
5B	Lg. Svc. (8MW)	\$/Customer	Industrial
10	Irrigation	\$/Customer	Commercial
11B	Water & Sewage	\$/Customer	Commercial
15B	Universities 115 kV	\$/Customer	Commercial
30B	Manuf. (30 MW)	\$/Customer	Industrial
33B	Lg. Svc. (Station Power)	\$/Customer	Industrial
35B	Lg. Svc. (3 MW)	\$/Customer	Industrial
36B	SSR - Renew. Energy Res.	\$/Customer	Industrial
6	Private Lighting	\$/Customer	Commercial
20	Streetlighting	\$/Customer	Commercial

**Structural and Cash Flow Analysis**

Characteristic	Description	PNM Transaction Meets Criteria?
<b>Transaction Structure</b>	<ul style="list-style-type: none"> <li>▪ Fitch requires that an acceptable transaction structure include the true sale of the property right to a bankruptcy remote SPE that serves as the bond issuer. The SPE pursuant to its statutory authorization grants a first perfected security interest in the transition property to a trustee on behalf of the bondholders</li> <li>▪ The true-up mechanism adjusts the transition charges to ensure that scheduled bond payments and other ongoing financing costs are paid as scheduled, prior to the rated legal maturities of each bond tranche</li> </ul>	✓
<b>Credit Enhancement</b>	<ul style="list-style-type: none"> <li>▪ The mandatory periodic true-up adjustment mechanism is the primary form of credit enhancement for the bonds. The frequency of true-up adjustments is a key factor in the analysis, with more frequent, and optional true-ups a positive factor</li> <li>▪ Other credit enhancement, such as equity accounts or reserves, are typically small. If they are drawn upon, the accounts must be replenished through the true-up mechanism</li> </ul>	✓
<b>Collection Accounts</b>	<ul style="list-style-type: none"> <li>▪ Revenues from the customer charges must be deposited in SPE collection accounts established by the transaction indenture and controlled by the SPE trustee. The collections are then distributed pursuant to the indenture waterfall to pay bond interest, principal and other ongoing SPE expenses. Any excess cash is held within an excess funds account and is incorporated in the calculation of the next true-up adjustment</li> </ul>	✓
<b>Cash Flow Modeling</b>	<ul style="list-style-type: none"> <li>▪ Cash flow models are developed incorporating both the asset and liability sides of the transaction, using the proposed bond structure and forecasted customer revenues over the life of the transaction. Forecasted energy consumption by customer class, delinquency and charge-off and other assumptions</li> </ul>	✓
<b>Modeling Methodology</b>	<ul style="list-style-type: none"> <li>▪ Fitch requires the analysis of various cash flow stress scenarios assuming significant declines in customer revenues, attributable to factors such as economic recessions, demographic shifts, customer exits from the service territory, co-generation, energy conservation and forecasting errors. The stress methodology combines factors and applies a single variance percentage to determine whether the true-up mechanism adequately offsets the revenue declines within acceptable time frames and charge thresholds</li> </ul>	✓
<b>Servicer Risk/Interest Rate Risks/Commingling Risk</b>	<ul style="list-style-type: none"> <li>▪ The rating of the experienced utility servicer is a factor, with investment grade ratings a credit positive (PNM has investment grade ratings). Model assumes higher replacement servicer fees throughout</li> <li>▪ Where variable rate bonds are issued, interest rate risk must be mitigated with hedge counterparties meeting Fitch counterparty rating criteria (PNM proposes to issue fixed rate bonds.)</li> <li>▪ Funds should be remitted to the SPE lockbox daily, with no longer than a two-business day period of potential commingling with other utility cash</li> </ul>	✓

**III. FITCH CRITERIA: CASH FLOW MODELING**

**AAAsf Stress Scenario**

Characteristic	Description	PNM Transaction Meets Criteria?
<b>Stress Variable: Forecast Variance and Consumption Stresses</b>	<ul style="list-style-type: none"> <li>▪ This stress variable is applied as a stressed forecast variance to projected consumption, intended to incorporate the effect of an economic recession, extreme weather changes, changing usage patterns or general demographic shifts</li> <li>▪ The ‘AAAsf’ stressed forecast variance is set at 5.0x the historical five-year peak absolute forecast variance (i.e. the largest variance, whether the forecast was too high or too low). As a further stress, these stressed variances are applied to the first year and increased 1% annually thereafter for the first 10 years, then by 1.5% for the next five years and 2% thereafter</li> </ul>	
<b>Stress Variable: Reforecasting Stress</b>	<ul style="list-style-type: none"> <li>▪ Fitch assumes that, even as actual consumption declines below original forecasts, the utility does not promptly rectify its original forecasts to reflect this adverse variance</li> <li>▪ This stress assumes that a revision of original forecasts (or a reforecasting process) will only commence two years after the stressed forecast variances take effect. Thereafter, forecasts will be aligned with actual experience</li> </ul>	
<b>Stress Variable: Delinquency Rates / Chargeoffs</b>	<ul style="list-style-type: none"> <li>▪ Fitch reviews the utility’s historical delinquency experience and applies a 5.0x multiple to the highest delinquency period. If the transaction uses a collections curve, Fitch assumes delays in actual collections beyond the collections curve</li> <li>▪ Fitch applies chargeoff ratios at 5.0x the five-year historical peak chargeoff</li> </ul>	 (Only 2 years of annual data available)
<b>Stress Variable: Successor Servicer Fee</b>	<ul style="list-style-type: none"> <li>▪ The ‘AAAsf’ stress case assumes that a successor servicer is appointed at closing; a higher successor servicer fee is utilized for purposes of cash flow modeling</li> </ul>	
<b>Stress Variable: Billing Risk</b>	<ul style="list-style-type: none"> <li>▪ Fitch assumes that, each year, cash flows relating to the month with the largest billed amount are fully written off due to a servicing disruption event</li> </ul>	
<b>Stress Variable: Franchise Fee Stress</b>	<ul style="list-style-type: none"> <li>▪ The franchise fee stress assumes that the portion of franchise fees recoverable from customers is not recovered</li> <li>▪ The percentage of revenue recoverable from customers as a franchise fee is added to the base case chargeoff level and a 5.0x multiple is applied</li> </ul>	

A summary of the PNM-proposed transaction assumptions and results for the Fitch AAAsf Stress Scenario follows on the next page.

# GUGGENHEIM

<b>Stress Variable: Variance and Consumption Stress<sup>(1)</sup></b>		<b>Commercial (%)</b>	
Highest Absolute Total Variance (5-Year Historical)		1.7%	
AAAsf Stress (5.0x Highest Absolute Variance)		8.7%	
% Increase in Variance Stress, Years 1-10		1.0%	
% Increase in Variance Stress, Years 11-15		1.5%	
% Increase in Variance Stress, Years 16+		2.0%	
	<b>AAAsf Variance %</b>	<b>AAAsf Consumption<sup>(2)</sup></b>	
Year 1	8.7%	583	
Year 2	9.7%	575	
Year 3	10.7%	567	
Year 25	46.2%	327	
<b>Stress Variable: Delinquency Stress</b>		<b>Base Case (%)</b>	<b>AAAsf (%)</b>
Paid on Due Date to 30 Days		76.2%	38.0%
One Month Overdue		14.1%	45.0%
Two Months Overdue		4.3%	7.2%
Three Months Overdue		0.9%	0.0%
Four Months Overdue		4.2%	0.0%
Five Months Overdue		0.0%	0.0%
Six Months Overdue		0.0%	0.0%
Never Collected		0.3%	9.6%
Chargeoff Stress (5.0x Historical Peak Chargeoffs) <sup>(3)</sup>		0.3%	9.6%
Servicer Fee: Successor Servicer Fee		0.05%	0.60%
Billing Risk		N/A	One-Mo. Writeoff

<b>Summary of Scenario Results</b>			
<b>Payment of Principal and Interest (Base Case)</b>	<b>Timely Interest?</b>	<b>Repaid by Legal Final Mat.?</b>	<b>Years Extended Past Sch. Mat.</b>
Class A-1	Yes	Yes	0.0
Class A-2	Yes	Yes	0.0
Class A-3	Yes	Yes	0.0
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.0
<b>Payment of Principal and Interest (AAAsf Stress Case)</b>	<b>Timely Interest?</b>	<b>Repaid by Legal Final Mat.?</b>	<b>Years Extended Past Sch. Mat.</b>
Class A-1	Yes	Yes	0.0
Class A-2	Yes	Yes	0.0
Class A-3	Yes	Yes	0.0
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.0
<b>Residential Customer Charge</b>	<b>Base Case</b>	<b>AAAsf</b>	
Maximum Residential Customer Charge - San Juan Securitization <sup>(4)</sup>	\$2.09	\$3.08	
Maximum Residential Customer Charge - Four Corners Securitization <sup>(4)</sup>	\$1.64	\$2.20	
Average Total Monthly Residential Bill <sup>(5)</sup>	\$79.28	\$80.83	
Residential Customer Charge as a % of Average Bill	4.7%	6.5%	

- (1) Note: Also assumes residential consumption declines to the point such that no customers are in Block 3.  
(2) Represents monthly demand in MW.  
(3) Includes franchise fee stress in AAAsf stress scenario.  
(4) Weighted average of Block 1 and Block 3 customer charges. Excludes Gross Receipts Tax and Franchise Fees.  
(5) Based on average monthly residential bill for 2019 plus customer charges.



**No-Industrials Stress Scenario**

Characteristic	Description	PNM Transaction Meets Criteria?
<b>Stress Variable: Industrial Customer Class</b>	<ul style="list-style-type: none"> <li>This case is designed to test the risk from self-generation and new technologies, which is more inherent in this asset class</li> <li>In service territories deemed to have industrial concentrations, Fitch tests the ability of the transaction to withstand the complete loss of consumption from the industrial class, assuming base case conditions hold</li> </ul>	✓

A summary of the PNM-proposed transaction assumptions and results of the Fitch No-Industrials Stress Scenario is below.

Stress Variable: Industrial Customer Class	Industrial (%)
Decline in Industrial Customer Count	100%

Summary of Scenario Results			
Payment of Principal and Interest (Base Case)	Timely Interest?	Repaid by Legal Final Mat.?	Years Extended Past Sch. Mat.
Class A-1	Yes	Yes	0.0
Class A-2	Yes	Yes	0.0
Class A-3	Yes	Yes	0.0
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.0
Payment of Principal and Interest (No-Industrials Stress Case)	Timely Interest?	Repaid by Legal Final Mat.?	Years Extended Past Sch. Mat.
Class A-1	Yes	Yes	0.0
Class A-2	Yes	Yes	0.0
Class A-3	Yes	Yes	0.0
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.0
Residential Customer Charge	Base Case	No-Industrials Stress	
Maximum Residential Customer Charge - San Juan Securitization <sup>(1)</sup>	\$2.09	\$2.19	
Maximum Residential Customer Charge - Four Corners Securitization <sup>(1)</sup>	\$1.64	\$1.77	
Average Total Monthly Residential Bill <sup>(2)</sup>	\$79.28	\$79.51	
Residential Customer Charge as a % of Average Bill	4.7%	5.0%	

(1) Weighted average of Block 1 and Block 3 customer charges. Excludes Gross Receipts Tax and Franchise Fees.

(2) Based on average monthly residential bill for 2019 plus customer charges.

**Rating Sensitivity Scenario**

Characteristic	Description	PNM Transaction Meets Criteria?
<b>Stress Variable: Energy Consumption</b>	<ul style="list-style-type: none"> <li>Fitch’s rating sensitivity analysis seeks to determine the break-even rate of consumption decline a transaction could withstand before leading to a default in the payment terms of the transaction</li> <li>In its analysis, Fitch utilizes its cash flow model to decrease the rate of consumption in 1% increments until the amounts collected are no longer enough to meet the minimum interest required each period or fully repay principal by the legal final maturity date</li> </ul>	✓

**A summary of the PNM-proposed transaction assumptions and results of the Fitch Rating Sensitivity Stress Scenario is below.**

**Stress Variable: Energy Consumption**

Break-Even Consumption Day 1 Decline Rate <sup>(1)</sup>	100%
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<b>Summary of Scenario Results</b>			
<b>Payment of Principal and Interest (Base Case)</b>	<b>Timely Interest?</b>	<b>Repaid by Legal Final Mat.?</b>	<b>Years Extended Past Sch. Mat.</b>
Class A-1	Yes	Yes	0.0
Class A-2	Yes	Yes	0.0
Class A-3	Yes	Yes	0.0
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.0
<b>Payment of Principal and Interest (Ratings Sensitivity Case)</b>	<b>Timely Interest?</b>	<b>Repaid by Legal Final Mat.?</b>	<b>Years Extended Past Sch. Mat.</b>
Class A-1	Yes	Yes	0.5
Class A-2	Yes	Yes	0.5
Class A-3	Yes	Yes	0.5
Class A-4	Yes	Yes	0.0
Class A-5	Yes	Yes	0.5
<b>Residential Customer Charge</b>	<b>Base Case</b>	<b>Ratings Sensitivity Case</b>	
Maximum Residential Customer Charge - San Juan Securitization <sup>(2)</sup>	\$2.09	\$3.81	
Maximum Residential Customer Charge - Four Corners Securitization <sup>(2)</sup>	\$1.64	\$2.97	
Average Total Monthly Residential Bill <sup>(3)</sup>	\$79.28	\$82.33	
Residential Customer Charge as a % of Average Bill	4.7%	8.2%	

(1) Assumes the utility does not reforecast. Assumes residential consumption declines to the point such that no customers are in Block 3.

(2) Weighted average of Block 1 and Block 3 customer charges. Excludes Gross Receipts Tax and Franchise Fees.

(3) Based on average monthly residential bill for 2019 plus customer charges.

**Variations from Criteria**

Fitch rating committees may vary the application of criteria. Rating agencies are independent organizations, and may revise or depart from their published criteria at any time. The Fitch Criteria include these statements:

“Fitch’s criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process.... A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations.... A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but were the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

## SUPPORTING EXHIBIT-3: PRELIMINARY BASE CASE CASH FLOW SCENARIO

Assumptions		Capital Structure													
Class	Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)						
Total Debt	\$300,000,000														
Scheduled Maturity (year)	24.8	2yr UST	0.12%	+25	0.37%	2.2	0.8 - 3.8	3.8	6.8						
Legal Final (year)	27.8	5yr UST	0.36%	+58	0.94%	5.5	3.8 - 7.3	7.3	10.3						
Annual Servicing Fee	\$150,000	10yr UST	0.92%	+93	1.85%	11.5	7.3 - 15.3	15.3	18.3						
Ongoing Expenses	\$324,965	20yr UST	1.44%	+110	2.54%	18.1	15.3 - 20.8	20.8	23.8						
Payment Frequency	Semi-Annual	20yr UST	1.44%	+141	2.85%	22.8	20.8 - 24.8	24.8	27.8						
<b>Total / WA<sup>(2)</sup></b>	<b>\$300,000,000</b>		<b>1.23%</b>	<b>+113</b>	<b>2.35%</b>	<b>13.8</b>	<b>0.8 - 24.8</b>	<b>24.8</b>	<b>27.8</b>						

(1) Benchmark rates as of 12/31/20.

(2) Weighted average benchmark rate, spread, and coupon are weighted based on tranche balance and WAL. Sum of weighted average benchmark rate and spread may not equal weighted average coupon due to rounding.

Revenues (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	
Revenue Requirement (Debt Svc & Expenses)	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Actual Collections	17.1	16.8	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Less: Servicing Fee Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Plus: Capital Subaccount Draw / (Deposit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Cash Flow Available for Debt Service</b>	<b>16.7</b>	<b>16.3</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>

Bond Cash Flow (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Class A-1 Beginning Balance	31.5	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	8.9	10.4	10.4	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	39.9	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.5	0.4	0.4	0.4	0.3	0.2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	39.9	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.2	1.0	0.8	0.6	0.4	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-
Class A-4 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.3	1.0	0.6	0.3	0.0	-	-	-	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Ending Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-	-
Class A-5 Beginning Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Class A-5 Interest	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Ending Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2

Note: Cash Flow Available for Debt Service may not equal total Interest and Principal paid due to rounding or the availability of funds in the Excess Funds Subaccount. Cash flow is assume 9 months between closing date and first payment date and that the first true-up is effective 6 months after closing. Subsequent true-ups occur semi-annually in between payment dates.

**SUPPORTING EXHIBIT-4: PRELIMINARY FITCH AAA SF STRESS CASH FLOW SCENARIO**

Assumptions		Capital Structure										
		Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)		
Total Debt	\$300,000,000											
Scheduled Maturity (year)	24.8	\$31,500,000	2yr UST	0.12%	+25	0.37%	2.4	0.8 - 3.8	3.8	6.8		
Legal Final (year)	27.8	39,900,000	5yr UST	0.36%	+58	0.94%	5.5	3.8 - 7.3	7.3	10.3		
Annual Servicing Fee	\$1,800,000	93,300,000	10yr UST	0.92%	+93	1.85%	11.5	7.3 - 15.3	15.3	18.3		
Ongoing Expenses	\$324,965	68,100,000	20yr UST	1.44%	+110	2.54%	18.1	15.3 - 20.8	20.8	23.8		
Payment Frequency	Semi-Annual	67,200,000	20yr UST	1.44%	+141	2.85%	22.8	20.8 - 24.8	24.8	27.8		
<b>Total / WA<sup>(2)</sup></b>	<b>\$300,000,000</b>			<b>1.22%</b>	<b>+113</b>	<b>2.35%</b>	<b>13.8</b>	<b>0.8 - 24.8</b>	<b>24.8</b>	<b>27.8</b>		

(1) Benchmark rates as of 12/31/20.

(2) Weighted average benchmark rate, spread, and coupon are weighted based on tranche balance and WAL. Sum of weighted average benchmark rate and spread may not equal weighted average coupon due to rounding.

Revenues (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28		
Revenue Requirement (Debt Svc & Expenses)	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	
Actual Collections	15.2	18.6	21.2	18.9	18.0	18.3	18.4	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3	18.3
Less: Servicing Fee Paid	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Plus: Capital Subaccount Draw / (Deposit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Cash Flow Available for Debt Service</b>	<b>13.1</b>	<b>16.5</b>	<b>19.1</b>	<b>16.8</b>	<b>15.8</b>	<b>16.2</b>	<b>16.3</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>

Bond Cash Flow (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	
Class A-1 Beginning Balance	31.5	25.7	15.1	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	5.8	10.6	13.3	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	25.7	15.1	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	39.9	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.5	0.4	0.4	0.4	0.3	0.2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	39.9	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	93.3	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.2	1.0	0.8	0.6	0.4	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1
Class A-4 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.3	1.0	0.6	0.3	0.0	-	-	-	-	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Ending Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-	-	-
Class A-5 Beginning Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Class A-5 Interest	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Ending Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2

Note: Cash Flow Available for Debt Service may not equal total interest and Principal paid due to rounding or the availability of funds in the Excess Funds Subaccount. Cash flow s assume 9 months between closing date and first payment date and that the first true-up is effective 6 months after closing. Subsequent true-ups occur semi-annually in between payment dates.

**SUPPORTING EXHIBIT-5: PRELIMINARY FITCH NO-INDUSTRIALS STRESS CASH FLOW SCENARIO**

Assumptions		Capital Structure									
		Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)	
Total Debt	\$300,000,000										
Scheduled Maturity (year)	24.8	\$31,500,000	2yr UST	0.12%	+25	0.37%	2.2	0.8 - 3.8	3.8	6.8	
Legal Final (year)	27.8	39,900,000	5yr UST	0.36%	+58	0.94%	5.5	3.8 - 7.3	7.3	10.3	
Annual Servicing Fee	\$150,000	93,300,000	10yr UST	0.92%	+93	1.85%	11.5	7.3 - 15.3	15.3	18.3	
Ongoing Expenses	\$324,965	68,100,000	20yr UST	1.44%	+110	2.54%	18.1	15.3 - 20.8	20.8	23.8	
Payment Frequency	Semi-Annual	67,200,000	20yr UST	1.44%	+141	2.85%	22.8	20.8 - 24.8	24.8	27.8	
<b>Total / WA<sup>(2)</sup></b>	<b>\$300,000,000</b>			<b>1.23%</b>	<b>+113</b>	<b>2.35%</b>	<b>13.8</b>	<b>0.8 - 24.8</b>	<b>24.8</b>	<b>27.8</b>	

(1) Benchmark rates as of 12/31/20.

(2) Weighted average benchmark rate, spread, and coupon are weighted based on tranche balance and WAL. Sum of weighted average benchmark rate and spread may not equal weighted average coupon due to rounding.

Revenues (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28		
Revenue Requirement (Debt Svc & Expenses)	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	
Actual Collections	17.1	16.8	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7
Less: Servicing Fee Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Plus: Capital Subaccount Draw / (Deposit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
<b>Cash Flow Available for Debt Service</b>	<b>16.7</b>	<b>16.3</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	<b>16.2</b>	

Bond Cash Flow (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28
Class A-1 Beginning Balance	31.5	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.1	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	8.9	10.4	10.4	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	22.6	12.2	1.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	39.9	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.5	0.4	0.4	0.3	0.2	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	39.9	39.9	39.9	31.2	20.6	9.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	93.3	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.2	1.0	0.8	0.6	0.4	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	93.3	93.3	93.3	93.3	93.3	93.3	92.5	81.6	70.4	59.1	47.6	35.8	23.9	11.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1
Class A-4 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.3	1.0	0.6	0.3	0.0	-	-	-	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Ending Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	67.4	54.7	41.7	28.4	14.8	0.8	-	-	-	-	-	-	-
Class A-5 Beginning Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Class A-5 Interest	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Ending Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2

Note: Cash Flow Available for Debt Service may not equal total interest and Principal paid due to rounding or the availability of funds in the Excess Funds Subaccount. Cash flow s assume 9 months between closing date and first payment date and that the first true-up is effective 6 months after closing. Subsequent true-ups occur semi-annually in between payment dates.

**SUPPORTING EXHIBIT-6: PRELIMINARY FITCH RATING SENSITIVITY STRESS CASH FLOW SCENARIO**

Assumptions		Capital Structure										
		Balance (\$)	Benchmark	Benchmark Rate <sup>(1)</sup>	Spread	Coupon	WAL (yrs)	Prin Window (yrs)	Sch Mat (yrs)	Legal Final (yrs)		
Total Debt	\$300,000,000											
Scheduled Maturity (year)	24.8	\$31,500,000	2yr UST	0.12%	+25	0.37%	2.6	0.8 - 4.3	3.8	6.8		
Legal Final (year)	27.8	39,900,000	5yr UST	0.36%	+58	0.94%	6.1	4.3 - 7.8	7.3	10.3		
Annual Servicing Fee	\$150,000	93,300,000	10yr UST	0.92%	+93	1.85%	12.0	7.8 - 15.8	15.3	18.3		
Ongoing Expenses	\$324,965	68,100,000	20yr UST	1.44%	+110	2.54%	18.5	15.8 - 20.8	20.8	23.8		
Payment Frequency	Semi-Annual	67,200,000	20yr UST	1.44%	+141	2.85%	23.2	20.8 - 25.3	24.8	27.8		
<b>Total / WA<sup>(2)</sup></b>	<b>\$300,000,000</b>			<b>1.22%</b>	<b>+112</b>	<b>2.34%</b>	<b>14.2</b>	<b>0.8 - 25.3</b>	<b>24.8</b>	<b>27.8</b>		

(1) Benchmark rates as of 12/31/20.

(2) Weighted average benchmark rate, spread, and coupon are weighted based on tranche balance and WAL. Sum of weighted average benchmark rate and spread may not equal weighted average coupon due to rounding.

Revenues (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28		
Revenue Requirement (Debt Svc & Expenses)	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	16.7	
Actual Collections	12.4	15.7	16.4	16.6	16.7	16.7	16.7	16.7	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Less: Servicing Fee Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Plus: Capital Subaccount Draw / (Deposit)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Cash Flow Available for Debt Service</b>	<b>12.0</b>	<b>15.3</b>	<b>15.9</b>	<b>16.1</b>	<b>16.2</b>	<b>16.2</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>

Bond Cash Flow (\$mm)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	
Class A-1 Beginning Balance	31.5	26.9	17.4	7.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.1	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	4.6	9.4	10.1	7.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	26.9	17.4	7.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	39.9	39.9	39.9	39.9	36.8	26.3	15.6	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.5	0.4	0.4	0.3	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	-	-	3.1	10.5	10.7	10.8	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	39.9	39.9	39.9	36.8	26.3	15.6	4.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	93.3	93.3	93.3	93.3	93.3	93.3	93.3	87.3	76.2	64.9	53.3	41.6	29.6	17.4	5.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.5	1.3	1.1	0.9	0.7	0.5	0.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Principal	-	-	-	-	-	-	-	6.0	11.1	11.3	11.5	11.7	12.0	12.2	12.4	5.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Ending Balance	93.3	93.3	93.3	93.3	93.3	93.3	87.3	76.2	64.9	53.3	41.6	29.6	17.4	5.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-4 Beginning Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	60.5	47.5	34.2	20.5	6.5	-	-	-	-	-	-	-
Class A-4 Interest	2.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.4	1.1	0.8	0.4	0.1	-	-	-	-	-	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7.6	13.0	13.3	13.7	14.0	6.5	-	-	-	-	-	-
Class A-4 Ending Balance	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	68.1	60.5	47.5	34.2	20.5	6.5	-	-	-	-	-	-	-
Class A-5 Beginning Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2
Class A-5 Interest	2.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-5 Ending Balance	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2	67.2

Note: Cash Flow Available for Debt Service may not equal total interest and Principal paid due to rounding or the availability of funds in the Excess Funds Subaccount. Cash flow s assume 9 months between closing date and first payment date and that the first true-up is effective 6 months after closing. Subsequent true-ups occur semi-annually in between payment dates.



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State of New Mexico  
Department of Finance & Administration  
Board of Finance  
181 Bataan Memorial Building  
Santa Fe, NM 87501  
(505) 827-4980 Fax (505) 827-3985

Governor Michelle Lujan Grisham  
President

Lt. Governor Howie Morales  
Board Member

Deborah K. Romero  
Acting Executive Officer

Ashley Leach  
Director

**MEMORANDUM**

December 15, 2020

To: Public Regulation Commission

From: Ashley Leach, Director, State Board of Finance

Subject: Memorandum Attesting to Experience of Guggenheim Securities, LLC and Atkins Capital Strategies, LLC

Copy: PNM

The Energy Transition Act ("ETA") requires the State Board of Finance (the "Board") to attest to the qualifications of a securities firm that provides a qualifying utility with a memorandum in connection with an application to the Public Regulation Commission for a financing order for a proposed issuance of energy transition bonds. See § 62-18-4 NMSA 1978. Public Service Company of New Mexico (PNM) has referred Guggenheim Securities, LLC and Atkins Capital Strategies, LLC to the Board of Finance as qualified securities firms in accordance with Section 4(B)(5) of the ETA.

The Board has reviewed the experience of Guggenheim Securities, LLC and Charles N. Atkins II, of Atkins Capital Strategies, LLC, with regard to their experience in the marketing of bonds and their capabilities of providing a memorandum included as part of PNM's financing application that the bonds satisfy the current published AAA or equivalent rating criteria of at least one nationally recognized statistical rating organization for issuances similar to the proposed energy transition bonds. In reviewing the experience and qualifications, the Board notes that Guggenheim Securities, LLC has successfully marketed a significant number of securitization bond issues and has also successfully structured and marketed securitization bonds of a similar nature. We also note that Charles N. Atkins II has demonstrated significant experience in the structuring of such bonds.

As a result, we conclude and attest that Guggenheim Securities, LLC and Charles N. Atkins II have experience in the marketing of bonds similar to energy transition bonds authorized by the ETA and they have the expertise to provide a memorandum indicating whether the bonds would satisfy the current published AAA or equivalent rating criteria of at least one nationally recognized statistical rating organization for issuances similar to the proposed energy transition bonds.

Attested to by:

Handwritten signature of Michelle Lujan Grisham in black ink.

Governor Michelle Lujan Grisham  
Chair, State Board of Finance

NMSOS





# U.S. Utility Tariff/Stranded Cost Bonds Rating Criteria

## Sector-Specific Criteria

### Scope

This report presents Fitch Ratings' analytical approach to rating U.S. utility tariff/stranded cost bonds. The criteria are relevant for new ratings and surveillance, with differences detailed herein.

Fitch has only assigned 'AAAsf' ratings in this sector, and Fitch's new issue methodology only addresses 'AAAsf' rating outcomes. To date, Fitch has only rated transactions issued by electric utilities, and the analyses have been focused on electric consumption by customers within the utilities' service territory. However, Fitch believes the analysis and stress assumptions detailed in the criteria can be applied to other utility sectors, such as water and gas. In these unique circumstances, Fitch expects the legal and regulatory framework to be consistent with typical electric utility-issued transactions.

### Key Rating Drivers

Each of the following key rating drivers is listed in order of importance for the analysis.

**Legal Risks and Regulatory Framework:** Unlike other ABS transactions, the cash flow stream supporting tariff bonds is a special tariff established under legislative or regulatory authority. Thus, the first and most significant component in Fitch's rating analysis is a thorough understanding of the statute and order. Fitch's analysis of tariff transactions includes a review of the legal structure to confirm that the cash flow derived from the special tariff will not be impaired or diminished.

**Credit Analysis (Revenue Stability):** The cash flow supporting tariff bonds is generated by payments from all or designated categories of customers in the utility's service territory. As such, Fitch reviews the composition of the service territory. Fitch also reviews the size of the tariff relative to the total customer bill to determine its viability, as excessive charges may present additional risk of political or regulatory challenge, in Fitch's view.

**Structural and Cash Flow Analysis:** Fitch uses a Utility Tariff Model, which is customized to reflect the payment structure of the transaction, and tests the impact of stressing various assumptions, including historical chargeoff and variance patterns. The output of the cash flow model is reviewed to determine whether the rated bonds are fully paid in accordance with the transaction documents in each stress scenario associated with a particular bond's rating.

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Asset-Backed  
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This report updates and replaces "U.S. Utility Tariff/Stranded Cost Rating Criteria," dated Dec. 7, 2018.

### Applicable Criteria

[Global Structured Finance Rating Criteria \(May 2019\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(April 2019\)](#)

### Analysts

Du Trieu  
+1 312 368 2091  
[du.trieu@fitchratings.com](mailto:du.trieu@fitchratings.com)

Calvin Ng  
+1 646 582 4699  
[calvin.ng@fitchratings.com](mailto:calvin.ng@fitchratings.com)

Andrew Peller  
+1 212 908 0220  
[andrew.peller@fitchratings.com](mailto:andrew.peller@fitchratings.com)

## Data Sources and Adequacy

Fitch utilizes historical data provided by the utility as inputs in its cash flow model, as well as for performance-based qualitative measures. Specifically, the stresses derived for the purposes of this methodology were developed based on a combination of historical data specific to each utility issuing the bonds and Fitch's analytical expertise. Therefore, Fitch reviews a minimum of five to 10 years of historical data demonstrating forecast consumption variance, delinquency rates and chargeoffs for each customer class. Fitch also expects to see data supporting the calculation and allocation of the tariff charge for each customer class, including the average customer bill for each class.

Historical data analysis may be deemed inadequate by Fitch due to (but not limited to) factors such as limited data availability and a history of poor consumption forecasting. In circumstances where full data sets are not provided or where Fitch deems provided data inadequate, Fitch will adjust its cash flow model assumptions accordingly, likely using a worst case scenario approach. If data provided are inadequate or insufficient, Fitch may cap the ratings it assigns or elect to not rate the transaction outright.

## Legal and Regulatory Framework

Utility tariff/stranded cost bonds are secured by collateral in the form of a dedicated special tariff. This special tariff is unique relative to traditional asset-backed security (ABS), notably, the property securing these bonds is an intangible, future-flow regulatory asset, with special protections available to holders of tariff bonds that qualify achievement of 'AAAsf' ratings.

The revenue streams provided by the dedicated tariff are used for utilities to recoup cost associated with lost revenue or cost associated with repairing utilities' transmission and distribution system following a natural disaster (utility tariff bonds). Additionally, the dedicated tariff can be used to recoup unrecoverable contractual and sunk cost (stranded cost) due to deregulation within the utility sector.

The special tariff is a regulatory asset established pursuant to an enabling act (the statute) passed by a state legislature to serve a public interest need for this type of financing. The statute is followed by a regulatory approval referred to as a financing order (the order) issued by that state's utility commission or the equivalent agency of the state authorizing the issuance of bonds backed by the special tariff.

The statute uses the authority of the state contemplating securitization to establish obligations, such as the state pledge, and to grant the commission or the equivalent agency of the state any rights that it would otherwise lack under existing state law. The statute serves to order and implement the state's policy objectives with regard to the tariff monetization, whereas the order is analogous to a comprehensive procedures manual that sets forth specific transaction terms and related provisions.

Fitch begins its analysis of utility tariff/stranded cost securitizations by closely analyzing the legal framework in place, specifically, the statute and order. In states considering securitization, a special tariff component will be established as an irrevocable charge through the statute approved by the state legislature and by the order approved by the commission or the equivalent agency of the state. While reviewing the provisions of the statute and order, Fitch focuses primarily on the following seven legal and/or regulatory features of the transaction:

- property right;
- irrevocability and state support;
- bankruptcy remoteness/true sale;
- utility successor requirements;
- third-party energy providers;
- true-up mechanism; and
- nonbypassability.

## Legal and Regulatory Considerations

- Special tariff established as a property right.
- Irrevocable by subsequent legislatures or commissions or the equivalent agency of the state.
- Statute, if applicable, includes the state non-impairment pledge.
- Supported by federal and state constitutional protections.
- Implication of the state referendum or ballot initiative process.
- Bankruptcy-remote issuer, nonconsolidation of trust assets with the utility and a true sale of property rights.
- First-perfected security interest in the property rights granted to the indenture trustee.
- Tariff true-up mechanism.
- Nonbypassable charges for customers connected to the distribution network.
- Guidelines for consolidated billing by third-party energy providers, if applicable.



Of importance, Fitch views the absence of enabling provisions (in the statute and/or order) that address any of the elements listed above as generally inconsistent with 'AAAs' ratings. However, in instances where a true-up mechanism is not structured into a transaction, other forms of credit enhancement (CE) may be incorporated to offset the absence of the true-up mechanism (as described on page 4 in the True-up Mechanism section). The agency will take into consideration these other forms of CE in its analysis.

### Property Right

Since the asset securing the tariff bonds is a right to a future cash flow stream, Fitch expects the statute or order to establish future special tariff collections as a property right that can be transferred and pledged as a security interest. Since the property right may not be governed by the Uniform Commercial Code, procedures for establishing a first-perfected security interest should also be outlined in the statute or order, as applicable. The amount of the special tariff, as well as the rules for its collection, should be defined in the order approved by the commission or the equivalent agency of the state in the relevant state.

### Irrevocability and State Support

Irrevocability of the special tariff prohibits the legislature, the commission or any other agency or governmental entity from rescinding, altering or amending the special tariffs or property rights in any way that would reduce or impair their value. Fitch considers the irrevocability language an important protection against changing political agendas in the legislative or executive branches of government. It represents a high level of assurance of state regulatory action in support of the revenue requirements of tariff bonds.

Fitch expects this high level of assurance of state regulatory action to be further supported by the contracts and takings clauses of the U.S. Constitution and most state constitutions, which protect against contract impairment and property seizures without just compensation.

Tariff bonds are not direct obligations of the state or guaranteed by the state's full faith and credit. However, if the tariff bonds are issued pursuant to specific legislation, the statute typically includes a state non-impairment pledge wherein the state agrees that it will not limit or alter the special tariffs (the property right), the order or any other right under the bonds until the principal and interest on the bonds are fully paid or unless adequate compensation has been made to safeguard bondholder rights.

Because the assets securing these bonds are created through the political and regulatory processes, the statute and order may initially be subject to challenge from opposing parties. While the political process differs from state to state, the enactment of legislation or issuance of the order involves a process in which interested parties have the opportunity to challenge or submit amendments to the proposed language.

Generally, after the statute is approved by the legislature and/or the order is issued by the commission or the equivalent agency of the state, there is an additional defined period when outside parties can challenge the statute or order through litigation. When this period expires, the potential for further political and regulatory attack is substantially diminished. Therefore, transaction closings are expected to occur only after the statute and order become non-appealable.

Fitch recognizes that many states have a ballot initiative and/or referendum process that allows opposition groups to place a petition on the election ballot upon receipt of a given number of voter signatures. When analyzing tariff bonds issued under the relevant statute in these states, it is important to understand how ballot initiatives or referenda affect the federal and state constitutional protections, the irrevocability language and the state non-impairment pledge. Fitch expects transaction counsel to provide an analysis of the constitutional protections and issues in the relevant state.

### Bankruptcy Remote/True Sale

The statute or order is expected to protect bondholders from the interruption or impairment of cash flows in the event of a utility bankruptcy, as explained in the Utility Successor Requirements section below. It is also expected to provide that the transfer of property rights to the trust will be treated as an absolute transfer, not as a pledge, of the seller's right to, title to and interest in the property. The statute or order should also define conditions for a valid,



enforceable and perfected security interest for the indenture trustee. Some unique aspects to the analysis of utility tariff/stranded cost transactions are detailed in the Appendix.

To date, there have only been a limited number of utility bankruptcies associated with securitizations. Within this small subset, the securitizations continued to perform within expectations with no interference from any legislative or government entity.

### Utility Successor Requirements

As with any future-flow securitization, asset-generation risk or the risk that the assets (special tariffs) may not be generated as expected in the future due to the utility's inability to continue operating, is a key consideration. Fitch believes this risk is largely mitigated by successor requirements imposed by the statute/order and the essential nature of utility services.

Therefore, to effectively de-link the rating of tariff bonds from that of the utility, Fitch considers it essential that the statute or order create an obligation on the commission or the equivalent agency of the state to ensure that, in the event of the incumbent utility's sale or bankruptcy, any successor to the utility (including, but not limited to, the utility as debtor-in-possession and the reorganized utility after bankruptcy) be treated as a successor (for purposes of imposition of special tariffs on the successor's customers) and be ordered to continue servicing the tariff bonds to avoid disruption in billing and collecting.

### Third-Party Energy Providers

In some states, third-party energy providers (e.g. non-utility power generators, energy marketers and independent brokers) are granted the right to bill customers directly, not only for the energy commodity, but also for network distribution services performed by the utility (consolidated billing). In this case, the third-party provider collects and remits back to the utility the distribution fees and special tariff to service the tariff bonds.

If the statute or order allows for third-party consolidated billing, a typical result is the imposition by the state, authority or equivalent agency of the state of minimum credit quality or collateral requirements on parties wishing to assume this service. Generally, such guidelines include setting minimum credit standards for such providers, posting cash collateral to cover a period for which revenues are at risk and/or assumption of personal liability by the third party for billed amounts, regardless of collections. Fitch expects these guidelines to define the circumstances in which a third-party provider would be replaced either by the incumbent utility or an alternate servicer. This is important as the approval of the commission or the equivalent agency of the state is often a prerequisite for the transfer of billing and servicing responsibilities away from designated third-party energy providers under such jurisdictions.

### True-Up Mechanism

The statute or order requires that the special tariff be reset periodically at least annually or semiannually. The reset, referred to as the true-up mechanism, adjusts the special tariff to a level sufficient to ensure that the periodic bond payment requirements (PBPRs) (interest payments, scheduled principal amortization, related fees and any replenishment of any CE balances) are met. The statute or order may provide for more frequent resets, either discretionary or mandatory, based on the occurrence of certain events, such as a minimum percentage variance between projected and actual principal amortization. Several states have also provided for more frequent true-ups in the final years of the transaction's life.

The true-up can increase or decrease the special tariff, depending on the positive or negative variance of actual tariff payments and/or energy consumption from the utility's projections. Applications for special tariff true-ups are generally filed with the commission or the equivalent agency of the state based on updated sales forecasts for the forthcoming years. Under the statute or order, the commission or the equivalent agency of the state does not have the discretion to disapprove or alter the true-up calculation, except to correct computational or other manifest errors. Also, the commission or the equivalent agency of the state is usually obliged by the statute or order to establish special tariffs at a level sufficient to repay the debt over the scheduled term.

Under the financing order, the tariff is deemed irrevocable and prohibits any legislature, agency or governmental authority from rescinding, amending or altering the tariff in any way that would impair or reduce the tariff value. The passed legislation includes a state impairment



clause that ensures the value of the tariff cannot be altered in a negative manner until the issued bonds are paid in full.

The absence of a true-up mechanism could limit the ability to assign a 'AAAsf' rating. However, to date, Fitch has not rated a utility tariff/stranded cost transaction that was structured without a true-up mechanism. When it exists, adjustment of the special tariffs through this mechanism is the most significant credit component for these transactions. However, if the regulatory framework does not provide for any adjustment or if the true-up mechanism is inadequate, additional CE, such as reserve accounts or subordinated tranches, may offset the absence of the true-up mechanism. In such instances, Fitch will place greater reliance on the outcome of its cash flow stress scenarios to demonstrate adequacy of alternate forms of CE.

### Nonbypassability

The special tariff is usually assessed as a charge on electric, water or gas delivery, applicable to the monopoly retail utility service. Therefore, regardless of which gas, water or electricity provider supplies the commodity delivered to the customer, the special tariff will be collected based on delivery service. This type of special tariff is frequently referred to as a network charge, since it applies to service over the utility's wire or pipeline system.

When customers are able to choose an alternative gas, water or power providers, they need to be connected to the distribution system, whether for primary or backup service, tends to limit their ability to bypass the special tariff. Customers can avoid the special tariff by changing their consumption of energy so that they are not using the distribution system or by moving out of the service area.

The statute generally provides that the special tariffs are nonbypassable, implying that a utility can collect these charges from all existing retail customers and all future retail customers within the service territory without any (or with a few) exceptions. Instances where covenants related to nonbypassability that allow for weaker provisions (that allow for significant exceptions) would not be consistent with a 'AAAsf' rating.

If the statute contains provisions that allow for significant exceptions, Fitch will apply more severe variance stresses to the related customer classes in its cash flow scenarios. However, the complete exclusion of nonbypassability provisions will likely preclude a transaction from receiving a 'AAAsf' rating, since it would introduce significant uncertainty in future cash flows, which would be difficult to quantify in cash flow stresses.

### Credit Analysis (Revenue Stability)

Since the cash flow supporting the tariff bonds is generated by payments from all or designated categories of customers in the utility's service territory, it is important to analyze the composition of the service territory to determine the size and usage level of the customer base, customer delinquencies, regional economic sensitivities and weather-related seasonality.

#### Customer Base

The size and variability of the customer base have a significant potential effect on cash flows to the bonds. Fitch reviews a number of economic factors in its analysis of the customer base, including the size and shape of the service territory (the geographic footprint), diversity of the customer pool, change in housing starts during recessionary periods, exposure to key industries, cyclicalities of key industries, historical recessionary bankruptcy data and existence of any major military bases in the territory. These qualitative factors help Fitch develop an understanding of the utilities' customer base, which, ultimately, provides the cash flows to pay the liabilities of the trust. In general, a utility's customer base is segmented into four primary segments: residential, commercial, industrial and government.

The residential segment will provide a high level of customer diversification, similar to that found in credit card receivables ABS transactions. Since the special tariff is assessed against a household rather than an individual, it is assumed that the majority of residents moving away from a service territory will be replaced with new residents. Thus, the residential segment tends to be a large, diversified and relatively stable source of cash flow.

#### Credit Analysis Checklist

- Composition of the customer base.
- Customer concentrations in commercial and industrial segments and customer class cross-collateralization.
- Regional industrial concentrations.
- Strength of the regional economy.
- Geographic footprint.
- Seasonality and cyclicity.
- Size of the dedicated special tariff and effect on the all-in cost to consumers.
- Development of alternative energy-generation technologies.
- Opportunities for self-generators to disconnect from the power grid while maintaining exemption to special tariffs.



Industry and individual commercial concentrations are also assessed, as the utility's commercial and industrial customers may represent significant concentration in the customer base. These customers tend to be fewer in number and contribute higher tariff revenues per account than residential customers. The government segment has historically represented a lower percentage of usage but can be exposed to government appropriation risk. Fitch incorporates the risks associated with customer concentrations by stressing billing risk and no industrial/commercial consumption in its cash flow stress tests.

Risk is greater if responsibility for specified portions of the securitized special tariffs is assigned to particular customer classes, including one or more classes with relatively few customers. Risk is mitigated if all customer classes bear responsibility through the true-up mechanism to pay in full the securitized special tariffs. In this case, the customer classes are said to be cross-collateralized.

An example of customer class concentrations is depicted in the table below. Of note, residential customers represent 50.0% of consumption and 43.3% of billed revenue. The industrial class represents 30.0% of consumption and 26.7% of billed revenue. The remaining customer concentration resides in the commercial customer class, which represents 20.0% and 30.0% of total consumption and billed revenue, respectively.

Due to the concentration diversity, the cross-collateralization softens the impact of reduced consumption in the event usage within a specific customer class declines. While utility service areas are typically diversified in regards to customer classes, Fitch may incorporate additional stresses on a nondiversified pool. In particular, if the customer base concentrations are outside historical levels for the utility, a higher stress would be considered to account for the change in concentrations. For example, in a pool with a high concentration of commercial customers and no industrial customers, Fitch may apply a similar stress on the commercial customers as described in the No-Industrials Stress section detailed on page 12 of this report.

#### Customer Service Territory: XYZ Utility Co.

Customer Class	Consumption (kWh)	% of Total	Retail Billed Revenues (\$000)	% of Total
Residential	500	50	650,000	43.3
Commercial	200	20	450,000	30.0
Industrial	300	30	400,000	26.7
<b>Total</b>	<b>1,000</b>	<b>100</b>	<b>1,500,000</b>	<b>100.0</b>

kWh – Kilowatt hours. Note: Numbers may not add due to rounding.  
Source: Fitch Ratings.

#### Size of Dedicated Tariff Component

Fitch believes that when the special tariff dedicated to servicing the bonds is a relatively small portion of customers' all-in cost of utility service, increases in the special tariff under the true-up mechanism are less likely to reduce consumers' demand for utility services or to stimulate consumers to adopt alternative, off-the-grid energy services (see the *Self-Generation and Alternate Technologies* section, starting on page 18). If the special tariff is large or total rates are high, customers may have a greater economic incentive to invest in alternative energy technologies, reduce their consumption, become self-generators or seek political or legal overturn. It is unfavorable from a credit viewpoint if the special tariff represents a significant portion of the total delivered cost of utility services, especially if it may affect the economic competitiveness of major industrial customers in the utility's service area.

Fitch incorporates an analysis that attempts to stress pools with high industrial customer class concentration. The analysis tests the ability of the transaction to withstand the complete loss of consumption from the industrial class, assuming base case conditions hold. Where special tariffs are cross-collateralized within the utility's service territory, consumption shortfalls for a customer class (such as industrial) can be corrected with a true-up across customer classes.

Fitch believes that special tariffs (under all scenarios) in excess of 20% of the customer bill over a long financing term would generally be inconsistent with a 'AAAsf' rating. In circumstances where the special tariff exceeds the 20% threshold, the likelihood of full

principal payment by the legal final maturity would not be consistent with a 'AAAsf' rating. In circumstances where multiple tariffs are charged to one specific service area, Fitch will take into consideration the aggregate amount of tariffs.

For example, if a utility issues multiple securitizations, the 20% threshold would apply to the aggregate tariffs from all the securitizations. This is a guideline utilized by Fitch based on the premise that, as long as special tariffs continue to represent a small percentage of an average customer bill, the potential for political or regulatory challenge is substantially diminished, and the reliability of the true-up mechanism as the primary source of CE is preserved.

## Structural and Cash Flow Analysis

### Transaction Structure



Source: Fitch Ratings.

### Transaction Structure

At closing, the seller, which is typically the utility, transfers its ownership interest in the property rights to a bankruptcy-remote SPV (usually a limited liability company) that serves as the issuer of the securities.

The SPV, pursuant to its statutory or regulatory authorization, will grant a first-perfected security interest in the tariff property to a trustee on behalf of bondholders. The flow chart at right summarizes the basic structure for these transactions.

Tariff bonds issued by the SPV may be tranching into multiple classes of self-amortizing bonds with serial maturities. The principal amortization schedule may be structured as level, mortgage style or variable payments. The key to assessing the appropriate amortization schedule is to determine that proposed payments are consistent with forecast seasonal fluctuations in collections.

While the projected principal amortization schedule is established at closing, principal shortfalls generally do not trigger an immediate default under the transaction documents. If there is a periodic reset, the true-up mechanism is used to make up for any prior shortfalls in interest, principal, fees or any CE balances so that principal shortfalls are compensated by tariff adjustments on the true-up filing anniversary immediately succeeding such shortfall (or sooner if permitted by the order).

Fitch evaluates the relationships of all aspects of the structure in assigning rating to tariff bonds. However, certain structural factors are given greater weight. For example, if the authority to impose the special tariff expires after a specified date, the final maturity date for the bonds is expected to fall within the maximum term of the tariff, as defined by the statute or order. Back-ended principal payments (e.g. mortgage-style amortization) may increase risk toward the end of the term. Also, given the technology risks associated with tariff bond transactions, Fitch applies more challenging cash flow stress scenarios for longer-term bonds



(see the *Self-Generation and Alternate Technologies* section, starting on page 17, and the *Cash Flow Modeling* section on page 9).

### Credit Enhancement

The primary form of CE for tariff bonds is the true-up mechanism, which requires that the commission or the equivalent agency of the state review and adjust the special tariff periodically to correct any undercollections or overcollections. The true-up mechanism, along with the essential nature of utility services, help mitigate the cash flow variability that may be present in a utility tariff/stranded cost transaction. Traditional CE, such as cash reserves or overcollateralization, tends to be relatively small (historically 0.5%–1.5% of the initial principal amount).

Fitch considers this minimum amount of enhancement as sufficient to achieve ‘AAAsf’ ratings for bonds structured with an adequate true-up mechanism, since cash flow variability is mitigated by the periodic true-ups and the essential nature of utility services. Traditional CE would be necessary to cover any timing gaps between when the bond payment is due and when the tariff true-up occurs. These traditional forms of CE are detailed in Fitch’s “Global Structured Finance Rating Criteria,” which discusses the various forms of CE and risks inherent in each. Therefore, it is important to understand the terms of the true-up mechanism and the overall bond structure. Fitch will review the relevant CE structure, including the true-up mechanism in each transaction and replicate it within the agency’s cash flow model.

In addition to the true-up mechanism, other forms of CE typically included in the structure of tariff bonds are reserve, or excess funds, subaccounts and capital subaccounts. Reserve subaccounts are funded with excess spread, to the extent available, in each reporting period, which may have required levels based on the outstanding debt level. Alternatively, capital subaccounts are funded at transaction closing. Subaccounts are established to cover timing mismatches of collections and required payments. Withdrawals from subaccounts may occur to cover payment shortfalls. Following withdrawals, the capital and overcollateralization subaccounts are replenished in subsequent periods to the extent excess funds are available.

However, for reserve subaccounts, the true-ups are either calculated to utilize and eliminate all remaining amounts reduced by the tariff over-collections from customers or, in some cases, to replenish the reserve subaccounts to a required level. While the true-up mechanism adjusts the special tariffs at least annually, ideally, any cash flow shortfalls are expected to be recovered by the end of the following year.

Historically, volatility in tariff charges for Fitch-rated transactions has been limited. In cases where there is a large move in the tariff because of a true-up (accounting for large over/under-collections), this scenario has been short lived, as the tariff was adjusted at the next true-up date. Furthermore, the majority of Fitch-rated transactions are allowed to true-up more frequently if performance was significantly outside of expectations. The capital subaccount typically represents a small percentage of the initial principal balance, providing some liquidity in the early stages of the deal, in addition to support toward the end of the transaction. Although back-end credit support is generally provided by available subaccounts, ultimately, the true-up mechanism is the primary credit support for most utility tariff/stranded cost transactions.

Sizing of the CE depends on the terms of the true-up mechanism, bond structure and strength of cash flows. For example, bonds structured with back-ended principal amortization may need higher CE in the early years to compensate for lower interest coverage. If bonds were structured without a true-up mechanism, substantially higher CE levels would be expected.

### Collection Accounts

An indenture trustee establishes collection accounts into which all special tariff collections will be deposited. The frequency of the utility’s deposits to the collection accounts will depend on commingling provisions, as described in the Counterparty Risk section on page 13. Funds held in these accounts will pay transaction fees and expenses, principal and interest and any overcollateralization requirements on a monthly, quarterly or semiannual basis. Any excess cash collected is normally held in a reserve account and, if applicable, incorporated in the calculation of the next true-up.





## Cash Flow Modeling

Fitch integrates the primary asset- and liability-side data presented in each structure into its internal Utility Tariff Model. The assumptions embedded in the model are based on the proposed structure and terms outlined in the order. Such an approach provides Fitch with a consistent basis for comparison across different transactions. However, while the Utility Tariff Model is an important consideration in determining the final rating, ratings are ultimately assigned by a Fitch rating committee, which takes into consideration both quantitative and qualitative factors.

While the Utility Tariff Model is updated based on the structure of the bond, as well as the statutory and regulatory framework, it addresses fundamental credit issues common to all securities in this asset class. Cash flow models incorporate: the forecast energy consumption (by customer class); assumptions on collections and chargeoffs; the true-up mechanism, including the mandated frequency of true-ups and any allocation factors specified by the order; billing and servicing risks posed by third-party energy providers, if applicable; special tariffs by customer class; CE; and PBPRs.

## Modeling Methodology

When analyzing tariff bond transactions, Fitch assumes a permanent and appreciable decline in consumption attributable to various factors, including economic recessions, demographic shifts, co-generation, energy conservation and forecasting errors. Fitch's cash flow stress methodology aggregates these multiple contributory factors and applies a single variance percentage to cash collections to determine if revenue declines from adverse consumption variances are offset in subsequent periods by the application of the true-up mechanism.

### 'AAAsf' Stress

Fitch has only assigned 'AAAsf' ratings in this sector; therefore, Fitch's new issue methodology only addresses 'AAAsf' rating outcomes. Fitch's new issue methodology includes two stresses, the 'AAAsf' stress and no-industrials stress, as described below. To assign 'AAAsf' ratings, the special tariff cannot be in excess of 20% of the customer bill under both stress scenarios. Fitch's 'AAAsf' stress case stresses the following key model variables, each of which is meant to incorporate multiple risk factors previously described and results in a reduction in cash flows below projections.

### Stress Forecast Variance

The first stress variable is applied as a stressed forecast variance to projected consumption. Fitch reviews the consumption forecast provided by the utility (issuer). The stressed variance is intended to incorporate the effect of an economic recession, extreme weather changes, changing usage patterns or general demographic shifts. The 'AAAsf' stressed forecast variance is set at 5.0x the historical five- to 10-year peak absolute forecast variance (i.e. the largest variance, whether the forecast was too high or too low). As a further stress, these stressed variances are applied to the first year and increased 1% annually thereafter for the first 10 years, then by 1.5% for the next five years and 2% thereafter.

Fitch believes the 'AAAsf' stresses appropriately account for potential asset deterioration from future weakness in the U.S. economy. If five to 10 years of historical forecast data are not available, Fitch will review the available history but may apply higher multiples to adjust for limited data.

### Reforecasting Stress

Fitch assumes that, even as actual consumption declines below original forecasts (by the stressed forecast variance above), the utility does not promptly rectify its original forecasts to reflect this adverse variance. Specifically, this stress assumes that a revision of original forecasts (or a reforecasting process) will only commence two years after the stressed forecast variances take effect. Thereafter, forecasts will be aligned with actual experience. However, in the interim two-year period, an inadequate true-up adjustment will occur, resulting in additional cash flow stresses.



### ***Self-Generation/Technology Risk***

Fitch assumes that technological uncertainty increases over time, especially for commercial and industrial customers. This would subsequently increase the risk of self-generation or adoption of alternate energy sources as greater technological options become available. To incorporate this risk, Fitch assumes that the stressed variance increases exponentially over the term of the bonds, based on the perceived risk of self-generation or alternate energy sources for the utility's customer base. In some states, the special tariff is imposed even if a consumer switches to self-generation. However, Fitch does not incorporate forecast consumption from this source in its cash flow analysis. In circumstances where consumption has increased or expected to increase, Fitch will consider incorporating additional stresses in the agency's stressed cash flow scenarios, such as the application of a higher multiple to the 10-year peak consumption variance in the 'AAAsf' stress scenario.

### ***Delinquency Rates***

To incorporate the effects of delinquency rates on forecast collections, Fitch reviews the utility's historical delinquency experience and applies a 5.0x multiple to the highest delinquency period. If the transaction uses a collections curve, Fitch assumes delays in actual collections beyond the collections curve.

### ***Chargeoffs***

Despite utilities' historically low chargeoff ratios, Fitch applies chargeoff ratios at 5.0x the five- to 10-year historical peak chargeoff. The historical data to be analyzed may vary based on the credit quality and term of the deal.

### ***Successor Servicer Fee***

The 'AAAsf' stress case assumes that a successor servicer is appointed at closing. Accordingly, a higher successor servicer fee (provided for in transaction documents or as specified in the order) is utilized for purposes of cash flow modeling.

To date, only a limited number of servicers have experienced significant credit-related distress. Fitch believes there is a market for backup servicing within this sector. However, there have been limited servicer transfers in prior bankruptcy cases. Due to the essential-use nature of a utility, the servicer was mandated to continue to service their portfolios, having no impact on securitization performance. Fitch has not been aware of any utility bankruptcies that have had a material impact on Fitch-rated ABS transactions.

### ***Billing Risk***

Fitch assumes that, each year, cash flows relating to the month with the largest billed amount are fully written off due to a servicing disruption event.

### ***Additional 'AAAsf' Stresses (If Applicable)***

#### ***Third-Party Billing Agent Default***

In jurisdictions where third-party energy providers are allowed to perform consolidated billing, the 'AAAsf' stress model incorporates a test of the transaction's maximum exposure to third-party collections. To test the effect of a potential third-party default, the stress case assumes third parties take over billing for a large percentage of the customer base and default each year for the entire term of the bonds. The length of the assumed default and percentage of the customer base affected vary based on the third party's commingling restrictions contained in the statute or order.

#### ***Franchise Fee Stress***

In certain jurisdictions, franchise agreements between a utility and municipality are required for the utility to use the municipality's right of way (public property) and establish a transmission and distribution system within that particular service area. In circumstances where the utility has entered into franchise agreements permitting it to provide service to municipalities (or parishes) in exchange for a franchise fee, an implied loss is added to base case chargeoff rates, as described below.

Franchise fees payable to a municipality by a utility are typically recoverable from customers. The franchise fee stress assumes that the portion of franchise fees recoverable from



customers in applicable municipalities (as a percentage of the total base revenue of the utility) is not recovered. For example, if \$5.00 is recoverable from customers as a franchise fee and the total base case revenue of the utility is \$1,000.00, 0.5% is modeled as an implied loss. The implied loss (0.5%) is added to the base case chargeoff level (say, 2.0%) to arrive at 2.5% and a 5.0x multiple is applied to it, resulting in a 'AAAsf' modeled chargeoff rate of 12.5%, instead of 10.0%.

### Interest Rate Risks

Fitch will identify any underlying interest rate mismatches in a proposed transaction and analyze the extent to which these positions are mitigated through the transaction's hedging structure, if any. Any relevant hedge counterparties must be consistent with Fitch's "Structured Finance and Covered Bonds Counterparty Rating Criteria," "Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum," and "Structured Finance Transactions and Covered Bonds Interest Rate Stresses Rating Criteria," reports, available on Fitch's website at [www.fitchratings.com](http://www.fitchratings.com).

### Illustrative Example

#### Example: XYZ Trust Series A

	Period	Residential	Commercial	Industrial	Total
Forecast Growth Rate of Electric Consumption by Customer Class (P.A.) (%)	All Years	1	1	1	—
Forecast Consumption over Time in Kilowatt Hours (kWh)	Year 0	500	200	300	1,000
	Year 1	505	202	303	1,010
	Year 2	510	204	306	1,020
	Year 3	515	206	309	1,030
Distribution of Consumption Across Customer Classes (%) <sup>a</sup>	Initial	50	20	30	100
	Allocation Factors (%)	Initial	30	30	40
Base Case Special Tariff (\$/kWh)	Initial	0.006	0.015	0.013	—
Periodic Bond Payment Requirement (PBPR) (P.A.) (\$)	Initial	—	—	—	10
Allocation of PBPR Burden Across Customer Classes (\$) <sup>b</sup>	Initial	3	3	4	10

<sup>a</sup>Equals forecast consumption for a given customer class divided by the sum of the forecast consumption across all customer classes (for the initial year) in kWh. <sup>b</sup>Equals forecast consumption for a given customer class (in kWh) times the base case special tariff (for the initial year). P.A. – Per annum.  
Source: Fitch Ratings.

To illustrate the application of the 'AAAsf' stress case, a hypothetical tariff bond transaction has been created – XYZ Trust Series A, with XYZ Utility Co. as the sponsoring utility. As shown in the table above, XYZ Co. provides electric service to three customer classes (residential, commercial and industrial), which accounted for 50%, 20% and 30% of total consumption in that service territory, respectively, as of the closing date.

#### Calculation of the Special Tariff at Each True-Up Period

The special tariff is assessed against each customer bill based on consumption (energy usage in kilowatt hour [kWh]) and is required to be adjusted via the true-up mechanism once every year. The order establishing the special tariff also stipulates that the revenue burden each period, or the PBPR, of \$10 be allocated among the three customer classes in a specific proportion. These relative revenue proportions are referred to as allocation factors and are stipulated in the order.

The initial allocation factors require that the PBPR be allocated 30%, 30% and 40% among the residential, commercial and industrial customer classes, respectively. The order allows for allocation factors to be updated periodically to reflect changes in average demand across customer classes over time and to facilitate cross-collateralization across customer classes.



However, for purposes of cash flow modeling, the cash flow model may assume that allocation factors remain fixed, which creates higher volatility in the special tariffs than would actually occur.

As the expected distribution of consumption by customer class need not match the prescribed distribution of revenue burden by customer class, a uniform special tariff cannot be levied across all customer classes. Therefore, on each true-up date, the model solves for a special tariff applicable to each of the three customer classes, which would not only be sufficient to meet the PBPR but also maintain the integrity of the two relative distributions described above. Based on this methodology, the initial special tariffs are 0.6, 1.5 and 1.3 cents/kWh for the residential, commercial and industrial classes, respectively.

#### 'AAAsf' Stress Variables

Fitch first applies a multiple of 5.0x to XYZ Co.'s historical 10-year peak consumption variance of 5%, 2% and 10% experienced in the residential, commercial and industrial classes, respectively. For the residential class, this translates into a stress forecast variance of 25% in year 0, which means that only 75% (i.e. 375 kWh) of the original forecast consumption of 500 kWh is realized. This stressed variance is then increased 1% annually until it reaches 28% on the legal final maturity date (year 3).

A special tariff of 0.6 cents/kWh is levied on the stressed consumption levels (for the residential class), resulting in lower billed revenues relative to the base case. To address billing risk, Fitch assumes that 100% of the billed revenue for the peak billing month (say, September) in each year is written off with no recovery. Next, to model delays in the collection of billed revenues, the collection curve is lengthened such that 50% of the amounts billed for the first two months are subject to a 30-day delay. Fitch also applies a 5.0x multiple to peak chargeoffs of 2%, resulting in stressed chargeoffs of 10%. Additionally, the increased successor servicer fee of 1% (the maximum fee permitted by the order) is utilized for purposes of cash flow modeling.

#### No-Industrials Stress

This case is designed to test the risk from self-generation and new technologies, which is more inherent in this asset class. In service territories deemed to have industrial concentrations, Fitch tests the ability of the transaction to withstand the complete loss of consumption from the industrial class, assuming base case conditions hold. Stress tests may be further customized for specific industry concentrations that pose higher than normal credit and/or cogeneration risk.

The goal of this scenario is to analyze the impact on peak special tariffs for residential, commercial and other customer classes if all the industrial customers were to leave the service territory upon a transaction's closing.



### Fitch 'AAAsf' Stress Scenario

Stress Variable: Variance and Consumption Stress (%)	Residential	Commercial	Industrial (%)
Highest Absolute Total Variance (10-Year Historical)	5	2	10
AAAsf Stress (5.0x Highest Absolute Variance)	25	10	50
% Increase in Variance Stress Each Year	1	1	1

	AAAsf Variance (%)	AAAsf Consumption <sup>a</sup>	AAAsf Variance (%)	AAAsf Consumption <sup>a</sup>	AAAsf Variance (%)	AAAsf Consumption <sup>a</sup>
Year 0	25	375.0	10	180.0	50	150.0
Year 1	26	373.7	11	179.8	51	148.5
Year 2	27	372.3	12	179.5	52	146.9
Year 3	28	370.9	13	179.3	53	145.3

Stress Variable: Delinquency Stress	Base Case (%)	AAAsf (%)
Paid on Due Date	40	20
One Month Overdue	44	42
Two Months Overdue	8	20
Three Months Overdue	4	2
Four Months Overdue	1	2
Five Months Overdue	1	2
Six Months Overdue	0	2
Never Collected	2	10
Chargeoff Stress (5.0x Historical 10-Year Peak Chargeoffs)	2	10
Servicer Fee: Successor Servicer Fee	0.25	1.00
Billing Risk	N.A.	One-Mo. Writeoff

<sup>a</sup>AAAsf consumption equals base case consumption times one minus variance. N.A. – Not available.  
Source: Fitch Ratings.

### Rating Assumption Sensitivity

Fitch's rating assumption sensitivity analysis seeks to determine the break-even rate of consumption decline a transaction could withstand before leading to a default in the payment terms of the transaction. In its analysis, Fitch utilizes its cash flow model to decrease the rate of consumption in 1% increments until the amounts collected are no longer enough to meet the minimum interest required each period or fully repay principal by the legal final maturity date (provided that nonpayment of principal according to the amortization schedule does not constitute an event of default under the bonds).

Fitch's sensitivity analysis is reviewed to understand the amount of adverse consumption variance that the transaction could withstand in a situation of a material decline in electricity demand. The goal of this scenario is to stress only one variable, the variance in consumption; therefore, all other assumptions should be consistent with the base case.

Generally, the period between the transaction closing date and first payment date is the most sensitive to consumption declines. This is because reduced tariff collections resulting from significant declines in consumption early in a transaction's life cannot be corrected until the first true-up date. Also, first payment dates often tend to follow more than six months after the transaction's close, as opposed to normal semiannual payments, allowing for greater declines in consumption than would typically be expected from a six-month payment interval. The exact cases developed to achieve this goal will vary by transaction.

### Counterparty Risk

The following section highlights some counterparty risks to utility tariff ABS transactions. However, Fitch's counterparty analysis should be considered in conjunction with the relevant



counterparty risk criteria. For more information on counterparty risk, refer to Fitch's "Structured Finance Transactions and Covered Bonds Counterparty Rating Criteria," which includes Fitch's rating criteria for assessing the operational risk of servicers of structured finance products, including ABS.

### Commingling

As tariff charge remittances are received by the utility (as servicer), transaction documents may allow for commingling of such remittances with the utility's funds for a short period. This presents the risk that, in the event of servicer bankruptcy, such remittances could be deemed to be part of the utility's bankruptcy estate. However, in accordance with Fitch's counterparty criteria, the agency views this risk as being largely mitigated because as remittances are received on a daily basis, they are transferred from the utility to the transaction-specific lock box within a short period (in most cases, within two business days). This limits the likelihood of a substantial amount of trust cash flows being commingled with the utility's other collection accounts.

Furthermore, utility tariff/stranded cost ABS' waterfall structures generally allow principal payments to be used to pay interest, while subsequent scheduled principal amortization shortfalls are covered via the true-up mechanism. (Fitch's counterparty criteria stipulate that supplementary CE, in this case, the true-up mechanism, can be sufficient to address short-term commingling risk.)

Transactions that do not allow for principal to pay interest or contain other structural features that negate this mitigant are expected to follow the requirements governed in Fitch's counterparty criteria. To date, Fitch has not rated a utility tariff/stranded cost transaction that did not allow for principal to pay for interest. Moreover, as described in Fitch's Cash Flow Modeling section on page 9, its 'AAAs' stress scenario includes stresses that are intended to address each transaction's ability to withstand servicing disruptions.

### Seller/Servicer (Utility Provider) Operational Analysis

Fitch recognizes that the quality, stability and financial condition of the seller/servicer's operations have a meaningful impact on the performance of utility tariff/stranded cost ABS transactions. Fitch's utility tariff/stranded cost/stranded cost ABS ratings include an evaluation of the seller/servicer. Historically, these transactions are serviced by the originator (the utility) of the assets. Fitch considers the servicing disruption risk low for the sector given the relative ease of servicing these type portfolios, established servicing standards, essential use nature of utilities and limited instances of bankruptcies. In the two instances where the utility filed for bankruptcy, the court affirmed the bankruptcy due to the essential use nature of electricity and allowed the utility to continue to charge and service the special tariff.

For these reasons, Fitch does not usually look for backup servicing arrangements or similar risk mitigants in its analysis. However, if servicing continuity risk is present (e.g. weak servicer credit quality and limited servicing experience), Fitch will analyze the servicing disruption risk in line with criteria outlined in its "Structured Finance and Covered Bonds Counterparty Rating Criteria" report, which typically calls for other mitigating factors, such as backup servicing arrangements, to maintain high investment-grade transaction ratings.

The utility is normally designated to act as servicer for the bonds, performing activities such as billing, calculating and collecting the tariff; calculating and filing for true-up adjustments; and forecasting sales and usage. In circumstances where a third-party energy service company performs consolidated billing, the utility functions as master servicer to consolidate and supervise collections from third parties. Utilities normally have extensive experience in the functions necessary to act as servicer. Also, a utility's ability to terminate utility services to nonpaying consumers is a strong incentive for bill payment. Additionally, the utility has an ongoing interest in continuing to perform billing and collection services, since it retains the majority of the total tariff. As such, Fitch's review of the seller/servicer focuses primarily on the utility provider.

Fitch expects to conduct a review of the utility's operations, including its credit evaluation processes, usage forecasting and servicing divisions, combined with a corporate review, prior to assigning ratings for new issuers. These reviews are often completed in conjunction with



Fitch's Corporate Global Power and ABS groups. Fitch's operational analysis focuses on three main factors:

- corporate performance, including operational and financial stability;
- the capabilities and quality of credit evaluation processes and usage forecasting; and
- the capabilities and quality of servicing operations.

Given the essential use nature of utilities, there have been limited instances of bankruptcies that have led to servicer transfers. Furthermore, the servicing is generally uniform across utilities allowing for relative ease of servicing transition, if required. As such, Fitch typically does not complete post-close operational reviews. However, if unique circumstances arise such as significant changes in utilities' staff or operational changes that could have a negative impact of the transactions performance, Fitch would speak with senior management to gain an understanding of the changes and assess the impact on servicing.

### Corporate Overview

An understanding of the company's history, structure, strategic objectives, management experience and funding capabilities is key to the operational review undertaken by Fitch. Ultimately, the servicer's strength affects Fitch's performance expectations, as well as its counterparty risk analysis.

Fitch believes that the financial condition of a company/servicer has a direct impact on the stability of its operational platform and, ultimately, on the performance of utility tariff/stranded cost ABS transactions. Fitch considers several factors and quantitative metrics in reviewing a company's financial condition to assess a seller/servicer's business viability, operations and financial health. These include available public credit ratings and, if not available, internal credit opinion will be conducted by Fitch. For companies not rated by Fitch, the agency expects to receive at least three years of audited financial statements, history of profitability and sources and levels of capital and liquidity.

As part of the evaluation, Fitch reviews merger/acquisition activity, expansion plans or intentions to exit or scale back specific businesses that could influence operating performance. Aggressive growth objectives involving acquisitions require greater scrutiny of the utility's volume capacity and resources, as well as integration planning and execution.

While a sub-investment-grade utility may be an acceptable servicer based on its operational qualifications, Fitch expects the transaction to provide for the right to replace the utility with an alternate servicer in the event of a decline in credit rating, insolvency or failure to perform any of the duties of servicer. The order and/or transaction documents typically incorporate a successor servicer fee sufficient to adequately compensate a backup servicer that takes on this role.

Although Fitch views positively such backup servicer provisions in transaction documents, the lack of such provisions per se is not likely to limit a potential 'AAAsf' rating. However, as explained in the Utility Successor Requirements section on page 4, Fitch views it as imperative that the statute or order create an obligation on the commission or the equivalent agency of the state to ensure that, in the event of the incumbent utility's sale or bankruptcy, the successor to the utility (at the very least) be ordered to continue servicing the tariff bonds.

Fitch looks at the experience and tenure of the underwriting and servicing employees on three levels: senior management, middle management and staff. Employee hiring, turnover and retention are important issues reviewed, as are the stability and depth of the management team. Training programs are included in the evaluation of a seller/servicer.

Fitch may adjust or cap the ABS ratings issued on a securitization, adjust base case assumptions or decline to rate a transaction in cases where the agency believes it is merited based on its review of the utility. Reasons for doing so could include poor financial or operational strength and/or low corporate rating/credit assessment of an issuer/servicer/parent; inadequate ability or lack of experience in servicing or operational ability; and inadequate financial, operational or performance data/information provided by the applicable party.



## Credit Evaluation

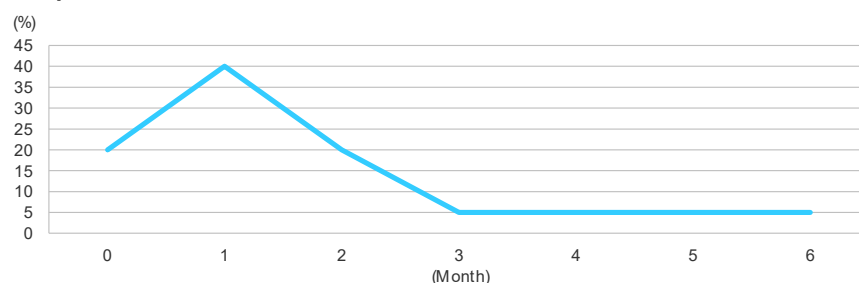
Under state law or regulations, a utility is typically required to provide service to all customers, regardless of the customers' creditworthiness. In some states with dramatic swings in temperature, utilities may be prohibited from disconnecting service during extremely hot or cold seasons. For these reasons, an important factor in a utility's assessment of its customers is the utility's requirement of additional security from riskier customers. If service cannot be denied, most utilities require a security deposit for new customers or those who pose a greater credit risk.

## Forecasting

Since scheduled principal amortization is based on the utility's sales forecasts, it is important to assess the utility's forecasting ability and accuracy. Utilities generally maintain econometric models that relate historical values of energy variables to measures of the weather, economy and number of customers. Fitch reviews the utility's actual sales for prior periods relative to historical sales forecasts to determine the peak unfavorable forecast variance and the reasons for such variance for each customer class included in the securitization. These results are used in the cash flow stress scenarios, as outlined in the Cash Flow Modeling section and stress cases, starting on page 9.

## Collections, Delinquencies and Chargeoffs

### Sample Collection Curve — % of Billed Revenues Collected



Source: Fitch Ratings.

The utility is expected to have a well-established process for pursuing and collecting delinquencies. However, since customers consider electricity or gas for heating an essential service, historical chargeoff and delinquency rates for utilities tend to be relatively low, compared with other consumer assets. It is not unusual for utilities to experience 0.50% average chargeoffs for a 20-year period. An important factor in the evaluation is whether the delivery utility is able to disconnect service for nonpayment, even if a third-party energy provider is supplying power. In some states, the ability to disconnect may be delayed or prohibited in the case of a third-party supplier, resulting in higher delinquencies and chargeoffs.

## Billing and Remittances

Typically, the special tariff is billed by the utility as a separate line item on the customer's bill, but, in some cases, it is bundled into a single aggregate charge and not specifically identified on the bill. The utility's billing systems are expected to be able to incorporate multiple components of billing information. As part of the rating process, Fitch reviews the utility's billing systems to determine whether they are adequately prepared to identify the special tariffs and track collections.

When the special tariff is billed and collected by the utility as servicer, along with other charges that belong to the utility, it is the responsibility of the utility as servicer to calculate the proportion of collections that belong to the SPV. Absent billing and remittance processing systems that permit the utility as servicer to identify the proportion of the bill payment by each individual consumer corresponding to the special tariff and remit the actual collections, most transactions use an alternate approach to allocate collections to the SPV.

A common alternative is the use of a collections curve to approximate the actual collections. A collections curve specifies the required percentage of each bill that must be remitted to the

## Servicer Checklist

- Forecasting methods and accuracy.
- Procedures for assessing customer credit.
- Collections process, notice and disconnection policy.
- Historical delinquency and chargeoff data.
- Billing systems.
- Procedures for coordinating with third-party energy providers (if applicable).
- Limitations on commingling of securitized tariffs.
- Requirements and fees for alternate servicers.





trust. The curve is calculated by the servicer based on an historical average percentage of bills collected by month, with percentages adjusted periodically based on updated collections experience.

Another method utilized to approximate actual collections is to remit estimated collections based on the utility's historical experience of the average number of days customers' bills remain outstanding. Similar to the collections curve method, the percentages of days outstanding are adjusted periodically to reflect more recent collections experience.

### Self-Generation and Alternate Technologies

Because the special tariffs are assessed on energy delivery services, the market entrance of alternative energy providers is not expected to affect tariff receipts. However, in some jurisdictions, customers could potentially avoid payment of the special tariff by performing energy generation on site and disconnecting completely from the distribution grid in the case of electricity or switching to an alternate fuel in the case of natural gas.

Tariff bonds are subject to a potential risk if a substantial number of electric power consumers switch to existing or new technologies to generate power for their own use (called self-generation or autoproduction) or purchase power from a local source delivered without the use of the utility network. In aggregate, these decentralized sources are known as distributed generation. Based on data provided by utilities within the utility tariff/stranded cost ABS sector, Fitch considers it unlikely that a significant portion of the customers will implement self-generation or distributed generation immediately or that alternative technologies will develop sufficiently within the next five to 10 years to allow for widespread disconnection from the utilities' grid.

### Performance Analytics

After a rating has been assigned by Fitch, the ongoing monitoring of such rating is transitioned to a primary analyst. The analyst is responsible for collecting and analyzing relevant transaction data and presenting collected information to a rating committee, as described below. Although monitored upon receipt of a servicer certificate, each transaction is reviewed at least once annually. Fitch will review and resolve any identified potential data issues prior to proceeding with the analysis of that transaction. If data critical to the analysis are unavailable or determined to be insufficient, Fitch may consequently withdraw the related ratings.

Fitch expects to receive periodic servicer certificates, received at least annually, to be utilized in its review process. Servicer certificates and performance for every transaction are tracked on a quarterly or semiannual basis, depending on bond payment frequencies. Based on performance data, if bonds are not amortizing as expected or if capital or overcollateralization subaccounts are not at levels required by the transaction's documentation, an analyst will make inquiries with the issuer, possibly triggering an in-depth review. Transaction-specific performance is published on Fitch's surveillance website. Metrics such as bond amortization, collections and CE levels are tracked and available to investors.

Utilizing the data gathered from the servicer certificates and aggregated on Fitch's internal database, the analyst evaluates the various performance metrics listed above. These metrics are compared with initial expectations and industry/sector trends. Fitch will contact the servicer/issuer if additional detail is needed regarding performance changes within the transaction. Additional information requests may include further tariff detail, billing collections and color on consumption variance.

Furthermore, Fitch expects to receive data demonstrating the size of the tariff charge relative to the total customer bill to verify that the charge is not approaching threshold levels. To date, Fitch has not employed the use of its cash flow model as part of the review process, as other performance measures as described above are sufficient for Fitch's analysis. Given the effectiveness of the true-up mechanism in all Fitch-rated transactions, there have not been any negative rating actions taken in this sector. However, in a circumstance where the true-up does not provide adequate credit support, resulting in shortfalls in the subaccounts, significant changes in amortization and an increase in the tariff beyond the 20% threshold, a more in-depth review of the transaction would be completed.



The more in-depth review would include updated stress cash flow modeling scenarios. Updated consumption forecast are not included in the aforementioned servicer certificates. However, as part of the in-depth review, Fitch would expect to receive an updated consumption forecast from the utility. Consistent with the rating methodology for new transactions, Fitch would apply a 5.0x multiple to the absolute peak variance for each customer class and the peak net loss/chargeoffs in its cash flow model. Additionally, the incorporation of all the 'AAAsf' stresses detailed on pages 9-13 would also be included. The goal of this analysis is to evaluate the impact on the peak special tariff as a percentage of the residential customer bill.

A tariff in excess of 20% would not be consistent with a 'AAAsf' rating. In circumstances where the tariff is in excess of 20%, utilizing the 5.0x multiple on the variance and net loss/chargeoff assumptions would suggest a potential for negative rating action. As such, Fitch would incorporate lower multiples for lower rating categories in its cash flow modeling scenarios. The rating multiples applied would be 4.0x, 3.0x and 2.0x for 'AAsf', 'Asf' and 'BBBs', respectively. For example, if under a 4.0x multiple on the variance and net loss/chargeoff assumptions resulted in the peak tariff falling below the 20% threshold, the transaction would be considered for a downgrade to 'AAsf' from 'AAAsf'. Of note, the above referenced multiples only apply to the review of existing transactions that are performing materially outside of expectations. Fitch has only assigned 'AAAsf' ratings within the sector for new issuances and the assumptions detailed herein are considered 'AAAsf' only assumptions. Counterparties to an outstanding transaction, such as servicers, trustees and derivative providers, can affect the cash flow, liquidity and performance of the transaction. Consistent with the initial review, Fitch reviews all transaction counterparties during a subsequent review to determine whether they continue to meet Fitch's criteria. Furthermore, analysts receive notice of all rating actions taken on counterparty ratings on a daily basis, as the downgrade of a transaction counterparty below a certain threshold will trigger a subsequent review, regardless of the performance of the transaction to date. Details of Fitch's counterparty criteria can be found in "Structured Finance and Covered Bonds Counterparty Rating Criteria."

## Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

## Criteria Limitations

Ratings, including Rating Watches and Outlooks assigned by Fitch, are subject to the limitations specified in Fitch's Ratings Definitions page at [www.fitchratings.com](http://www.fitchratings.com).

### **Appendix: Additional Legal Considerations**

Fitch's analysis of the legal risks in tariff bond transactions is comparable to its analysis of other structured finance transactions. For more detail on considerations related to the analysis of structured finance transactions, see Fitch Research on "Global Structured Finance Rating Criteria." There are also some unique aspects to the analysis of utility tariff/stranded cost/stranded cost transactions and, therefore, Fitch also considers:

- enforceability and constitutionality of the statute/order/pledge;
- the rights of and effect on bondholders upon an action seeking to impair the rights established pursuant to the statute/order and transaction documents under the U.S. Constitution and the relevant state constitution;
- the severability of the provisions of the statute/order; and
- the ability of citizens of the relevant state to seek to amend or repeal the statute/order and the likelihood of success.



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**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

IN THE MATTER OF THE APPLICATION )  
OF PUBLIC SERVICE COMPANY OF NEW )  
MEXICO FOR APPROVAL OF THE )  
ABANDONMENT OF THE FOUR CORNERS )  
POWER PLANT AND ISSUANCE OF A )  
SECURITIZED FINANCING ORDER )  
 )  
PUBLIC SERVICE COMPANY OF NEW )  
MEXICO, )  
 )  
Applicant )  
\_\_\_\_\_ )

Case No. 21-\_\_\_\_\_-UT

**SELF AFFIRMATION**

Charles N. Atkins II, Chief Executive Officer, Atkins Capital Strategies, LLC, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony of Charles N. Atkins II** and it is true and accurate based on my own personal knowledge and belief.

DATED this 8th day of January, 2021.

/s/ Charles N. Atkins II  
**CHARLES N. ATKINS II**

GCG # 527504