



LONG LAW FIRM

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The Bond Buyer, 2022 Southeast Bond Deal of the Year

Jamie Hurst Watts | Partner

An Award-Winning Solution to an Unprecedented Challenge

At Long Law Firm, our founder's desire to use the law for the greater good is essential to the work we do. This approach has never been more urgent than when a rapid occurrence of natural disasters over the course of 2020-21 caused widespread damage to the Louisiana electrical grid, disrupting life for millions of residents. Working together with multiple entities through a complex development process, we helped design a unique bond issue to help repair the damage, restore service and keep Entergy Louisiana, LLC financially solvent at a manageable cost to its ratepayers. The effort was recognized by The Bond Buyer as its 2022 Southeast Bond Deal of the Year.

KEY DETAILS

Client: Louisiana Utilities Restoration Corporation (LURC)

Purpose: Storm-related repairs and restoration

Transaction: Ratepayer-backed utility securitization (repaid over 15 years)

Bond Issue Date: May 19, 2022

Issue Amount: \$3.2 billion

Long Law Firm Lead Counsel: Jamie Hurst Watts, representing LURC

Solution Participants:

- Thomas Hessburg, Butler Snow, LLP – Bond Counsel
- Gordon King, Government Consultants, Inc. – Financial Advisor to LURC
- Don Wilbon, JP Morgan – Lead Underwriter
- Ty Carlos, Louisiana Community Development Authority – Issuer
- Brandon Frey, LURC Board Chairman and LPSC Executive Secretary
- Larry Hand and Dawn Balash, Entergy Louisiana, LLC Counsel
- Paul Zimmering and Noel Darce, Stone Pigman Walther Wittmann – Counsel to the LPSC
- Mark Gooding, Estrada Hinojosa – Securitization Consultant to the LPSC

OPPORTUNITY

Storms are nothing new to the resilient residents of Louisiana. The events of 2020 and 2021, however, occurred in greater frequency than our eventful history has ever witnessed, causing widespread damage to Entergy Louisiana's generation, transmission and distribution systems in a very short period of time. In less than one calendar year, the state was forced to deal with the relentless and repeated effects of five significant events:

- **STORM: Hurricane Laura**, Aug 27, 2020 (Cameron, LA), which impacted areas in Central/North Louisiana not typically affected by coastal hurricanes; **EFFECTS:** Severed all nine transmission lines in Southwest Louisiana (SWLA), which served residential and commercial customers, including a dense population of large industrial customers and critical energy infrastructure; impacted three SWLA power generation facilities
- **STORM: Hurricane Delta**, October 9, 2020 (Creole, LA), less than 15 miles from Laura landfall; **EFFECTS:** Struck Louisiana with sweeping outer bands that covered the entire state, damaging Entergy's generation, transmission and distribution facilities, some of which had been repaired after Hurricane Laura

- **STORM: Hurricane Zeta**, October 28, 2020 (Cocodrie, LA); **EFFECTS:** Impacted coastal Southeast Louisiana, as well as the New Orleans metro area, with damage to transmission and distribution facilities
- **STORM: Winter Storm Uri**, February 2021; **EFFECTS:** Damaged Entergy's distribution system, as well as its transmission and generation facilities, in the Baton Rouge metro area, Central Louisiana and North Louisiana
- **STORM: Hurricane Ida**, August 29, 2021 (Port Fourchon, LA), on the 16th year anniversary of Hurricane Katrina; **EFFECTS:** Caused devastation to Southeast Louisiana far surpassing that of the preceding storms; damaged more than double the number of distribution poles compromised by Laura, damaged five generation facilities and disconnected the greater New Orleans area from the transmission system, with all eight ties into the region rendered out of service

As counsel for the Louisiana Utilities Restoration Corporation, Long Law Firm faced an immediate and pressing opportunity to coordinate and accelerate a ratepayer-backed financial relief solution that would keep Entergy Louisiana hard at work restoring and repairing the energy infrastructure that serves more than one million Louisianians.

THE SOLUTION

The \$3.2 billion transaction is Louisiana's largest-ever municipal bond issue, a critical and timely source of funds put to immediate use for:

- Equipment repairs and replacement
- Mutual aid assistance from neighboring utilities
- Accommodations for restoration crews
- Restoration of storm reserve funds

In addition to the size of the transaction, the extent of the damage and the timing of the underlying storms also contributed to its uniqueness. In April 2021, Entergy Louisiana initiated its application to the LPSC for cost recovery related to the 2020 storms. Four months later, Hurricane Ida struck Louisiana — when Entergy Louisiana's storm reserve accounts had been depleted by the 2020 storms. The need to replenish storm reserves before the 2022 storm season was a critical factor.

By its ratepayer-backed nature, our solution was also subject to great sensitivity around the costs ultimately paid by Entergy Louisiana customers. While the utility could have sought recovery for storm restoration costs through traditional ratemaking at a 9% rate of return (profit) over 30 years, a ratepayer-backed securitization eliminates Entergy Louisiana's rate of return and lets the market dictate how much customers will pay. For this bond issue, the market rate was 4.283% — far less than 9% — with only a 15-year repayment duration. The charge appears as a separate line-item fee on customers' bills and is automatically transferred to a trustee on behalf of the bond holders. The result is an increased cost to customers, but at a lower amount for a shorter period of time than if included as a traditional rate increase.

It's important to note that while the utility does not earn a profit on the storm restoration amount, it does benefit because it is "reimbursed" for storm restoration amounts it has incurred and paid, including mobilization costs realized even before a storm hits. As soon as conditions are safe for restoration to begin, costs for equipment repairs and replacement, mutual aid assistance, accommodations for restoration crews, etc. must be paid — funds that a financially stable utility is able to advance without seeking emergency relief from their customers. When a securitization transaction closes, the utility is reimbursed for the costs incurred, at the amount

approved by the LPSC., helping the utility avoid slower cost recovery of these costs through traditional ratemaking. Prior to ratepayer-backed securitization in Louisiana, Entergy Louisiana was forced to seek emergency rate relief after Hurricanes Katrina and Rita in 2005, and Entergy New Orleans, Entergy Louisiana's affiliate, was forced to declare bankruptcy. Fast forward to 2020-2022 and both Entergy Louisiana and Entergy New Orleans were financially healthy enough to utilize ratepayer-backed securitization.

BARRIERS & CHALLENGES

This situation presented a "perfect storm" of challenges that called for a thoughtful, intentional solution, including:

Timing of the Storms

In April 2021, ELL initiated its application to the Louisiana Public Service Commission for recovery of costs related to the 2020 storms. Four months later, Hurricane Ida struck Louisiana. ELL's storm reserve accounts had been depleted by the 2020 storms. The need to replenish storm reserves before the 2022 storm season was a critical factor.

Legal Restrictions

Currently, investor-owned utilities like Entergy Louisiana are not eligible to receive storm restoration relief directly from state and federal sources. Also, as a response to financial devastation from Hurricane Andrew in the early 1990s, insurance coverage for this purpose is either unavailable or too expensive. And, while utilities can seek recovery funds through the traditional ratemaking process, this option is more expensive for ratepayers.

Multiple Approvals

The multi-step process on the road to issuance included:

- Entergy Louisiana's application to the Louisiana Public Service Commission (LPSC) for authorization to obtain storm relief through debt securitization
- The LURC Board of Directors' approval of the entity's participation in the securitization as the Borrower, which required Long Law Firm, as counsel to LURC, to keep directors informed of Entergy Louisiana's request and how it would impact the LURC entity
- LPSC — as Entergy Louisiana's regulator — evaluating and auditing each component of the storm restoration costs requested; determining an appropriate allocation of recoverable costs among the utility's residential, commercial and industrial customer classes; and deciding whether securitization is appropriate for recovery of these costs from customers (Participation of numerous parties included LPSC staff, representatives of Entergy Louisiana's large industrial and commercial customers, and the five elected LPSC commissioners, who are very cautious about any transactions resulting in additional customer charges.).
- Approval by the State Bond Commission, required because LURC is a public instrumentality of the State of Louisiana (The 11-member commission includes the State Treasurer, representatives of the Governor's Office, Commissioner of Administration and Attorney General, and several legislative members.)
- "AAA" rating by two bond rating agencies to ensure the lowest possible cost to Entergy Louisiana ratepayers
- Pricing in the bond market, which was incredibly volatile in 2022

Complex Coordination

Each of these milestones and approvals involves the support of numerous professionals who must work together to successfully navigate every detail to bring the transaction to fruition.

OUR DIFFERENCE

Why Long Law Firm? In a word, **experience**. Our firm has represented LURC since its inception in 2007, participating in every transaction in which the entity has participated. Long attorneys and staff have extensive experience in matters related to utility regulation, government relations, corporate governance and commercial transactions. In particular, lead counsel for LURC Jamie Hurst Watts's 20-year practice has focused on regulatory, transaction and corporate matters.

Learn more about us and our 35-year history of efficient, effective legal expertise at longlaw.com.