DEC Customer Obligations

October 2020

Vision

"Striving for Energy Excellence"

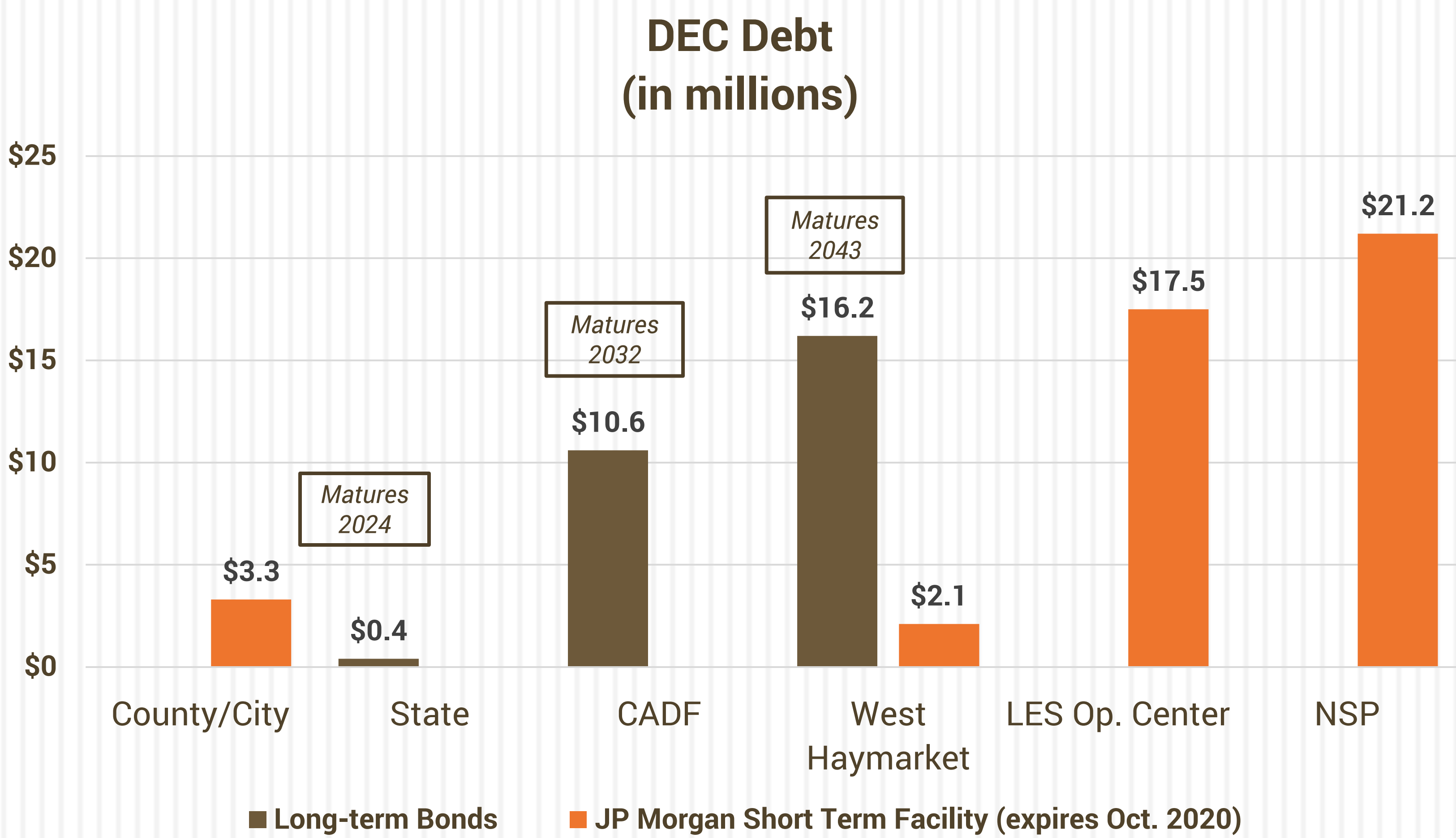
Mission

"Provide low-cost, reliable and efficient thermal energy services to enhance and enable economic development of the Lincoln community"

Purpose of Today's Meeting

- Review DEC's current debt structure and outstanding amounts
- Discuss upcoming bond issuance
- Receive customer feedback regarding proceeding with current bond structure
- LES team to report back to DEC Board at its October board meeting

DEC has $71.3M in outstanding debt in various forms



DEC customers may benefit from an explanation of DEC's debt obligation

General Bond Resolution 10-4-G; Section 7.08 Rates, Fees and Charges

DEC must set rates to produce revenue each fiscal year at least sufficient to:

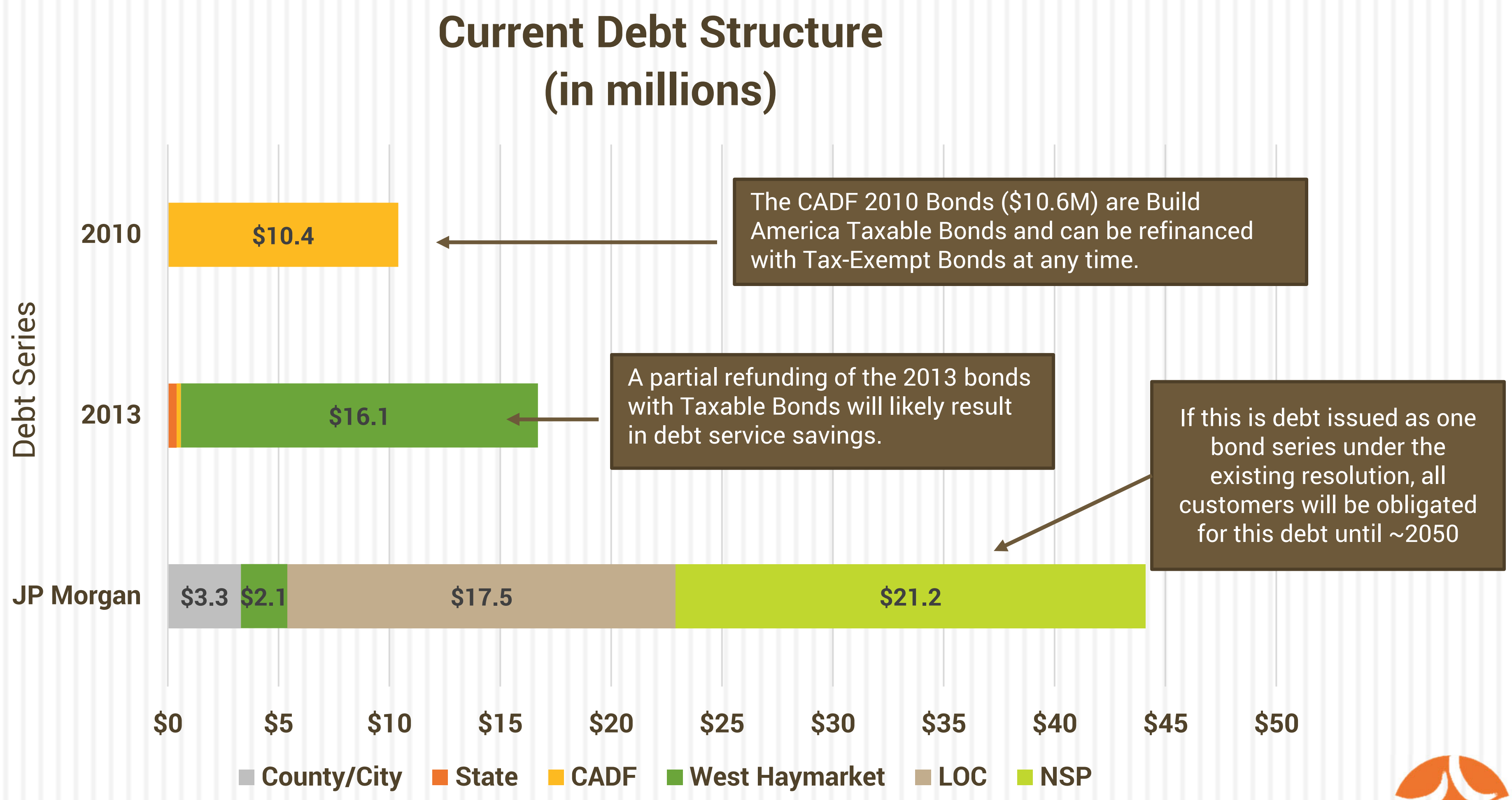
1. Pay all Operating and Maintenance Expenses
2. Pay the annual Debt Service
3. Pay all other financial obligations

Based on the above, DEC customers are subject to paying the debt for all facilities in the event of default of a fellow customer – even after their own facility's debt is paid if they elect to remain a customer of DEC.

(Note: Once a customer's facility debt is paid, the customer has the option of cancelling service with DEC and assuming ownership and operation of the plant that serves them.)

This issue is exacerbated each time that additional debt is issued by DEC, potentially obligating customers for longer periods.

Opportunities exist for refinancing and restructuring of existing debt



DEC will move forward with existing debt structure absent customer concerns

It is possible that DEC Customers are comfortable with a shared obligation structure

Pros with current structure

- Cheapest for all customers
  - *One bond series results in single offering document, single bond rating, lower LES labor and attorney fees*
- Risk of default by highly rated customers is low
  - *City, County, WHM and LES should generally be comfortable with each other*
  - *State customers may be an exception – could be separate issuance*
- Simple structure to explain to bond buyers
- Maintains a utility type approach

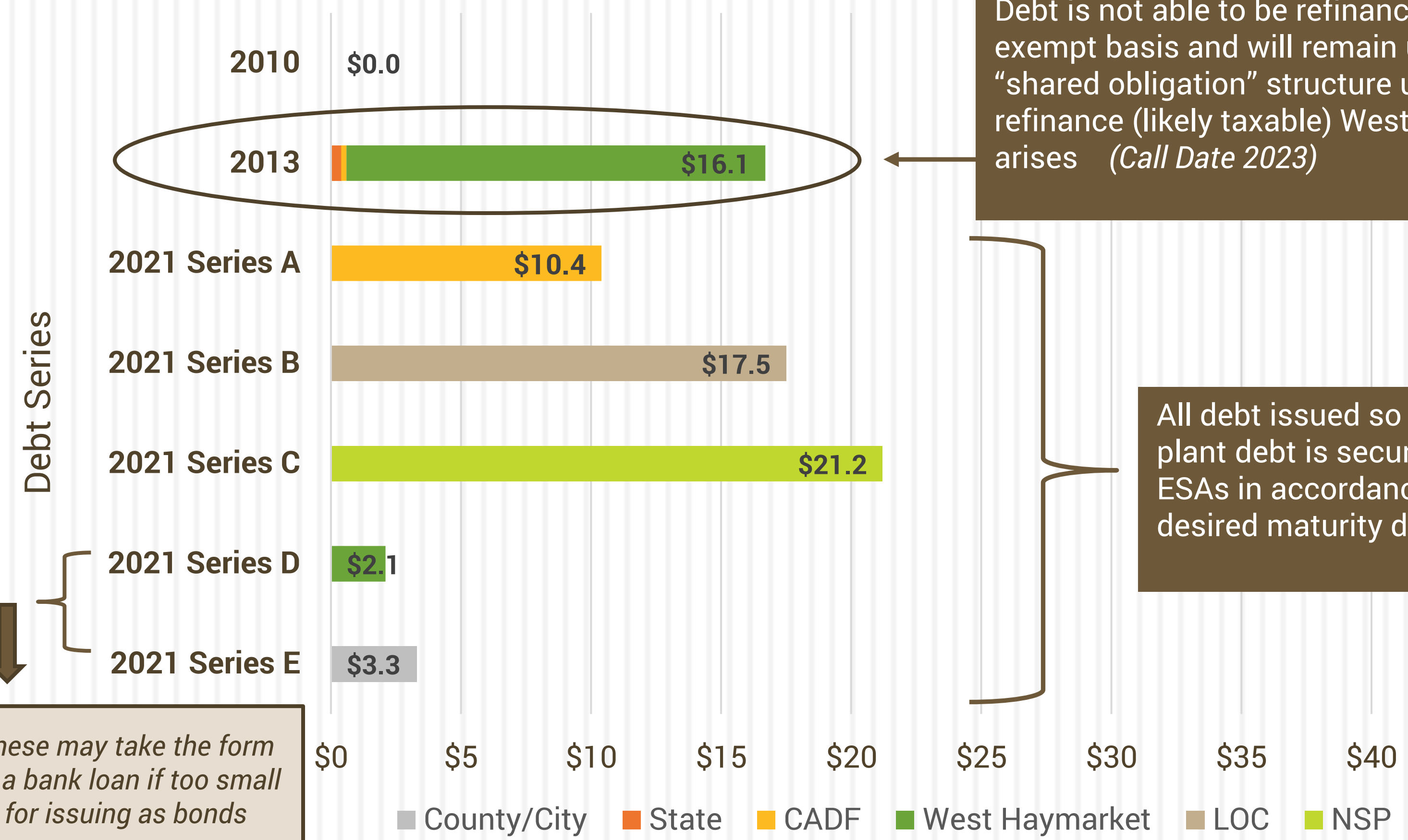
Cons with current structure

- Risk of fellow customer default
  - *There may be an opportunity to mitigate this risk with insurance*
- Difficult to unwind structure after bonds are issued

The decision on how to proceed is a long-term strategy decision that must be made carefully and with full understanding of DEC customers.

A scenario moving toward elimination of shared debt obligations creates challenges

Proposed Debt Structure



Debt is not able to be refinanced on a tax-exempt basis and will remain under current "shared obligation" structure until opportunity to refinance (likely taxable) West Haymarket debt arises *(Call Date 2023)*

All debt issued so that individual plant debt is secured by individual ESAs in accordance with customer desired maturity dates

These may take the form of a bank loan if too small for issuing as bonds

Amounts subject to change

Execution of the plan . . .

1. **July (complete)**: DEC Board Resolution 20-09 Extension of JP Morgan short term facility one year (to October 2021) to allow time to:
   - *Complete updated bond documents*
   - *Evaluate market and time the bond issuance appropriately*

   The JP Morgan Line of Credit can be paid down at any time over the next year.

2. July – September:
   - LES staff discusses with customers current obligations, upcoming bond issuance structure and desired maturity dates.

3. October Board Meeting
   - LES updates DEC Board on customer conversation and recommends plan to move forward on financing.
   - Resolution(s) for bond and/or bank loan financings.

4. Issue debt in Q1 or Q2 2021

Customer feedback needed

- DEC Board Meeting is October 20

- Plan to continue with shared obligation structure unless customer feedback necessitates an alternate plan and DEC Board directs a change