

From: [Heath, Thomas](#)
To: indexhelp@bloomberg.net
Subject: Recovery Bonds Classification Consultation: Corp vs ABS
Date: Monday, June 20, 2022 10:54:00 AM
Attachments: [Bloomberg Index Publications 2022-06-08 Index Announcement - Recovery Bo....pdf](#)

I am writing in response to your attached Index Announcement dated June 8, 2022.

Duke Energy Corp. has sponsored three recovery bond issuances (Duke Energy Florida Project Finance in June 2016, Duke Energy Progress NC Storm Funding in November 2021, and Duke Energy Carolinas NC Storm Funding in November 2021) all of which have been reflected as Corporate on the Bloomberg terminal and in the fixed income indices. Further we expect to sponsor a future issuance for storm cost recovery for our South Carolina jurisdiction, and potentially issuances in North Carolina and/or Indiana for recovery of early retired generation costs.

Duke Energy believes Corporate classification is the most appropriate treatment for recovery bonds. The enabling statutes and/or regulatory financing orders related to recovery bonds oftentimes require certifications from the issuer and/or underwriters as to transaction execution and achievement of the lowest recovery charges consistent with market conditions. Recovery charges are directly tied to pricing terms achieved for the recovery bond issuance. The ability to market a recovery bond transaction to the broadest group of investors possible is very important to the certification process and the attestation of lowest recovery charges.

It is our experience that recovery bond transactions classified as Corporate are attractive to both traditional corporate and traditional ABS bond buyers. However, some traditional corporate bond buyers are not able to purchase bonds classified as ABS due to real and/or perceived structural complexities or risks. While recovery bond transactions do have structural features that do not exist in traditional corporate bond structure they do not contain many of the features and risks of traditional ABS bonds such as portfolios of credit cards and automotive loans.

We looking forward to the results of your consideration of this important topic. I am happy to answer any follow up questions you may have regarding my comments above or other aspects of your evaluation of this matter.

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Index Announcement

Recovery Bonds Classification Consultation: Corp vs ABS

The Bloomberg Index team is opening a formal review of the classification of recovery bonds and their treatment with regards to their membership in the corporate vs ABS index.

Since February 2021, a number of deals containing recovery bonds have been issued. These bonds are currently classified as Corporate on the Bloomberg terminal and in the fixed income indices. These deals were brought to the market by the underwriters as corporate deals. There is language in some of the deal documentation along the lines of

'Neither the issuing entity nor the depositor is an asset-backed issuer and the recovery bonds are not asset-backed securities as such terms are defined by the SEC in governing regulations Item 1101 of Regulation AB.'

The structure of these deals allows that investors have no recourse to the Corp parent in the event of default. They are not guaranteed by the Corp parent (eg:PG&E) but are backed by the recovery property.

In light of the above, the Bloomberg index team is formally opening it's index governance review of the Classification of these bonds as corporate vs ABS.

Please forward your feedback on the above along with any additional suggestions or thoughts to your regional index team or email indexhelp@bloomberg.net. This feedback will be considered by Bloomberg's internal index governance committee, and Bloomberg will decide unilaterally whether, and how, to respond to any feedback, comment, or recommendation that results from the review process. A formal announcement regarding the outcome of the governance review will be made at the conclusion of the process.

Figure 1 below provides the list of the 26 recovery bonds on the Bloomberg terminal issued between Feb 2021 and May 2022 currently classified as Corporate. 8 of these bonds are in the Corp IG Index, 2 in the 144a Corp index. The bonds which are not eligible for the Corp indices is due to their size being less than \$300mm. The total amount outstanding of these bonds included in the Corporate IG index is around \$4.7 Bn.

If you have any questions, please contact the Bloomberg Help Desk (<Help><Help>), or indexhelp@bloomberg.net.

Figure 1
Recovery Bonds on the Bloomberg terminal

ID	Ticker	Issuer	Issue Date	Amount	In Corp Index?
78443LAB	EIX	SCE Recovery Funding LLC	2/24/2021	100,000,000	No
78443LAC	EIX	SCE Recovery Funding LLC	2/24/2021	100,000,000	No
78443LAA	EIX	SCE Recovery Funding LLC	2/24/2021	125,983,498	No
71710TAC	PCG	PG&E Energy Recovery Fund	11/12/2021	433,963,000	Yes
71710TAA	PCG	PG&E Energy Recovery Fund	11/12/2021	266,127,000	No
71710TAB	PCG	PG&E Energy Recovery Fund	11/12/2021	160,309,000	No
26443KAB	DUK	DUKE Energy Carolinas NC	11/24/2021	137,210,000	No
26443KAA	DUK	DUKE Energy Carolinas NC	11/24/2021	100,000,000	No
26444BAA	DUK	DUKE Energy Progress NC	11/24/2021	221,000,000	No
26444BAB	DUK	DUKE Energy Progress NC	11/24/2021	352,000,000	Yes
26444BAC	DUK	DUKE Energy Progress NC	11/24/2021	196,627,000	No
75458JAC	RAYCSC	RAYBURN CTRY SEC LLC	2/10/2022	345,947,000	Yes (144a)
75458JAB	RAYCSC	RAYBURN CTRY SEC LLC	2/10/2022	353,984,000	Yes (144a)

75458JAA	RAYCSC	RAYBURN CTRY SEC LLC	2/10/2022	208,220,000	No
78443LAE	EIX	SCE Recovery Funding LLC	2/15/2022	305,000,000	Yes
78443LAF	EIX	SCE Recovery Funding LLC	2/15/2022	128,265,000	No
78443LAD	EIX	SCE Recovery Funding LLC	2/15/2022	100,000,000	No
23345GAA	DTE	DTE Electric Secure Fund	3/17/2022	183,593,000	No
23345GAB	DTE	DTE Electric Secure Fund	3/17/2022	52,207,000	No
29366NAB	ETR	ENTERGY Texas Restoration	4/1/2022	190,850,000	No
29366NAA	ETR	ENTERGY Texas Restoration	4/1/2022	100,000,000	No
693342AE	PCG	PG&E Wildlife Recovery	5/10/2022	900,000,000	Yes
693342AB	PCG	PG&E Wildlife Recovery	5/10/2022	540,000,000	Yes
693342AA	PCG	PG&E Wildlife Recovery	5/10/2022	540,000,000	Yes
693342AD	PCG	PG&E Wildlife Recovery	5/10/2022	1,260,000,000	Yes
693342AC	PCG	PG&E Wildlife Recovery	5/10/2022	360,000,000	Yes

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