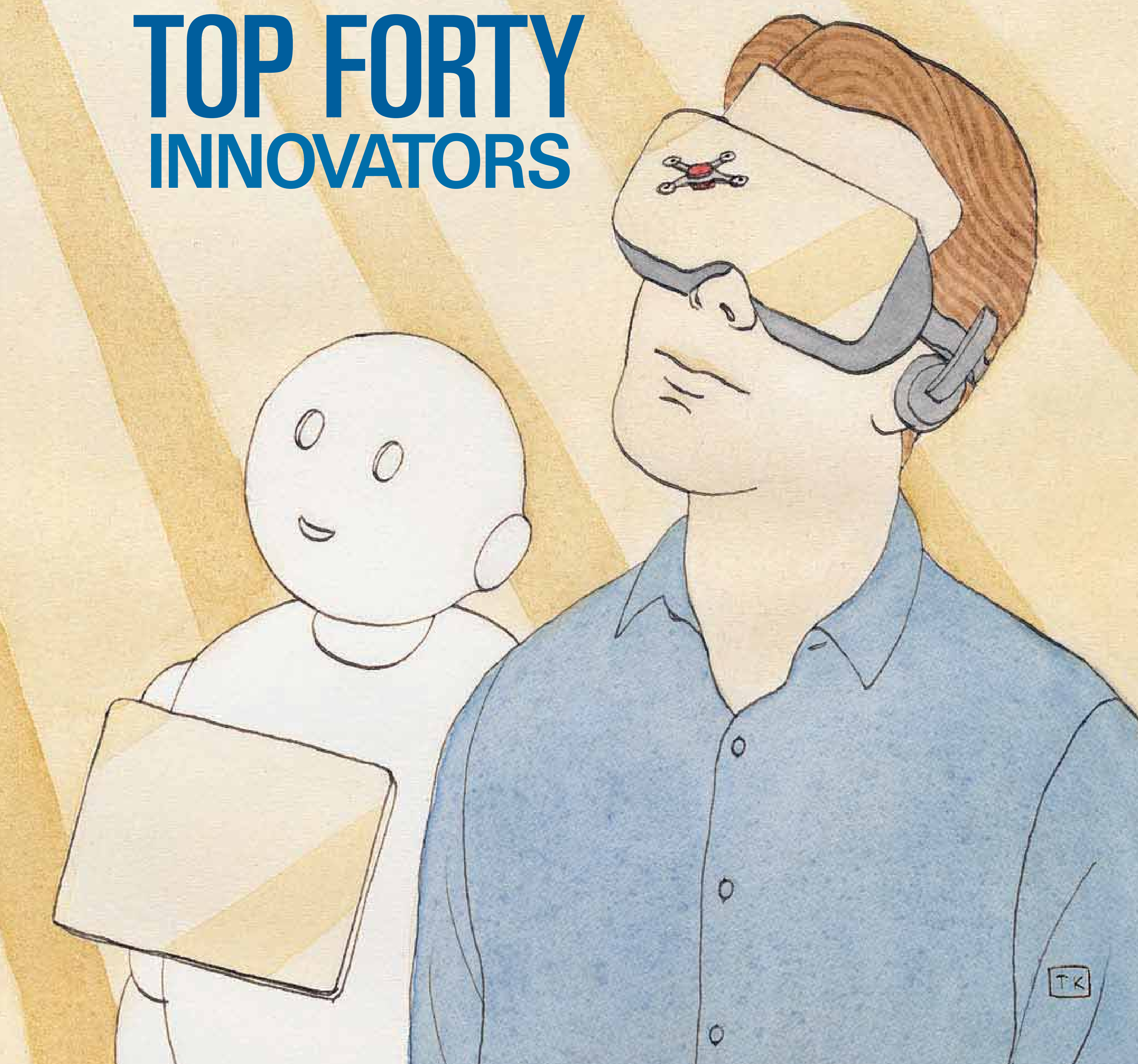
NOVEMBER 2017

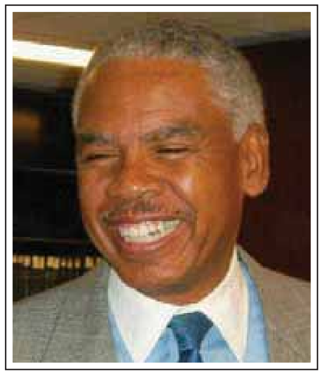
PUBLIC UTILITIES FORTNIGHTLY

"In the Public Interest"

2017 FORTNIGHTLY

TOP FORTY INNOVATORS





Banking in the Public Interest

Former PUC Chair Still Serving

By PUF's Steve Mitnick, with Wendell Holland

PUF's Steve Mitnick: You have a long and distinguished career in regulation. Tell us what you're doing now, how it's different, and how it's similar.

Wendell Holland: I decided to try a very uncommon approach to serve the public interest after I left the chairmanship of the Pennsylvania commission. I try to encourage the very utilities that we regulated to do business once again with Main Street banks – those banks on Main Street in the small towns that they serve.

That's the way business was done thirty or forty years ago, when I started in the utility business. Utilities did a large part of their financing with those banks who are headquartered in the service territories. Over time, the emphasis by utilities moved toward using the large global banks for finances, and we largely lost the benefit of using local banks for financing.

We have tried to encourage utilities to complement their facilities by using the local banks. We've thought that they can get largely the same pricing, but what it does even more, is improve the credit quality of their local banks.

Wendell Holland is an attorney with the CFSD Group LLC, and is the former chair of the Pennsylvania Public Utility Commission.

That's because the local banks do not otherwise have the ability to get investment grade loans in their portfolio. If they get an investment grade credit, it increases their Federal Reserve score, so, they can loan more.

When the local and community banks improve their credit quality, they can lend to local businesses such as Joe's Pizza Store, Harry's Barbershop or Steve's Pancake House. Those kinds of small businesses and their communities need and can use borrowing from banks.

PUF's Steve Mitnick: Somewhere along the way, more and more lending and banking business was done by the real big banks, maybe because some of the utility projects were very large. Maybe the needle went too far in one direction.

> There are numerous benefits in using local banks. I found that it's a win-win, not only for the local banks, but also for utilities.

Wendell Holland: It went toward the side of the large global banks. We felt that there are numerous benefits in using local banks. As a regulator, I found that it's a win-win, not only for the local banks, but also for utilities.

It's a win for Main Street businesses and regulators. Regulators can legitimately encourage and strengthen local economic development through our financings. It's wholly within that jurisdiction.

The kind of financings that we do with utilities are those that I used to typically review when I was chairman and commissioner. Those very same kind of financings that we do now are with the local banks instead of the large global banks. That means regulators approving our financings with utilities and local banks are simply acting within their statutory authority to review and approve financings.

It's a win-win for regulators. It's a way for regulators to do a public good and provide a benefit that we think may have gone unnoticed in years gone by.

PUF's Steve Mitnick: If I've got two proposals and one has more involvement with local businesses and local banks, that's going to look better. Is that what you're saying?

Wendell Holland: They're at least equal relative to pricing. They're at least competitive. You scratch your head and say to yourself, "Boy, what extra bang we can get from using local banks." We say again it's the economic development aspect that our financings give.

I'm from Pennsylvania, and I've traveled from Erie to Philadelphia and from Pittsburgh to Scranton. There are many economically depressed areas in my state.

To the extent that I can continue to energize these communities by strengthening our local banks, I will. We've done these kind of financings, not just in Pennsylvania, but in many parts of the U.S., particularly in the old Rust Belt states where any means of economic development is encouraged.

PUF's Steve Mitnick: One moment you're sitting through hours and hours of testimony and proceedings, and then you've moved to a more advisory role. How did you make that transition?

Wendell Holland: It's very easy. I literally started in regulation on September 15th, 1980. I commuted from Philadelphia to Harrisburg to learn and improve my expertise. It's about a hundred miles each way. I did that for four years and three days.

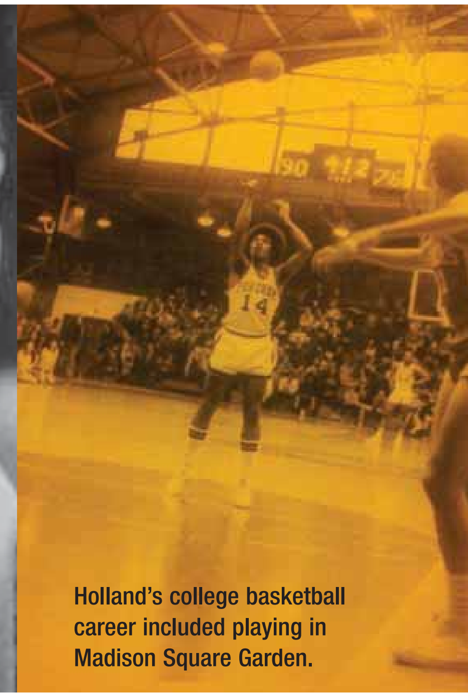
I started at the bottom. I was an assistant counsel. I started to work my way up to where I wrote final agency decisions. Then, I started to try rate cases. My wife essentially said it was too much strain on the family. We moved to New York, and I worked as a special assistant at the New York commission under Peter Bradford.

This was during the mid-80s. Regarding utility budgets, we remember the mid-80s as high inflation and repeated rate cases, particularly in New York.

Commissions were faced with the question of prudence and prudence reviews. After being in Albany for three years, three months, and six days, I came back to the Pennsylvania commission as a judge and heard utility cases.

In 1990, Governor Casey appointed me to the commission for my first time around, and that was a truly remarkable experience. When I left, I had the

In his younger days in utility regulation.



Holland's college basketball career included playing in Madison Square Garden.

While law and policy issues are important, the real crux of what makes a utility go is finances.

benefit of sitting on public company boards and actually representing utilities. I got to understand how important finance is to utilities.

Inside the commission, we're overwhelmed and faced with law and policy issues. But on the outside, you understand that while law and policy issues are important, the real crux of what makes a utility go is finances.

I was alerted to that when I first left the commission. I went back to the commission when Governor Rendell became governor in 2003. I was appointed chairman. I had that sensitivity to financing and the financial aspect of utilities, but there I faced increased mergers and acquisitions activity.

In Pennsylvania utilities, I approved about seven major mergers and acquisitions. I had to implement the renewal portfolio standard in Pennsylvania. I started to witness the nascent renewable industry in its infancy.

I knew that I was going to leave. This is the heart of it. I knew that I was going to leave the commission in time, but I didn't want to do what many of my neighbor colleagues were doing. I say this respectfully. Many of my neighbor colleagues, to their credit, go to law firms, or they become government affairs people.

Some of them, like my friend Rob Powelson, go into higher political arenas. Theoretically, it's a higher position. I did that my first term out ten years ago. I left the Pennsylvania commission and became a partner at LeBoeuf, Lamb. I commuted from Philadelphia to Manhattan.

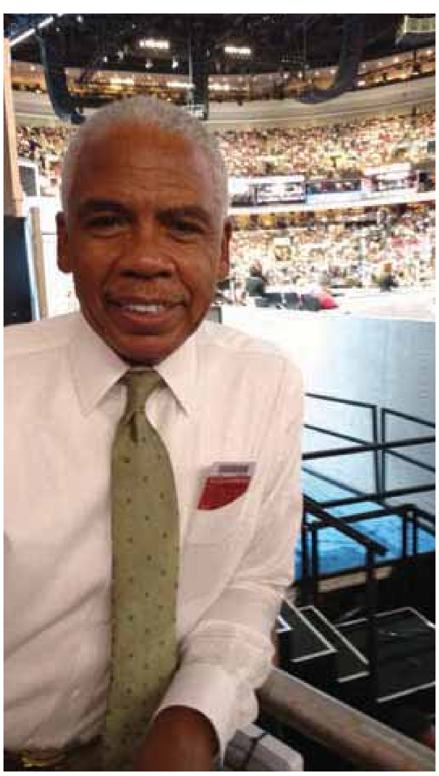
I started an international practice. Among other things, I wrote the energy treaty for the twelve states in southern Africa. I knew my second time out in 2008, that I wanted to do something different.

I wanted to take an independent and fresh look at things. I got a call, literally out of the clear blue, from Stan Garnett, and he said, "Wendell, we have this interesting concept of bringing more financing business from utilities to Main Street banks. Would you be interested?"

I said sure. He said, "Do you want to know who's on the team?" I played college basketball. I played many games at Madison Square Garden. I understood the whole concept of a team.

I understood that every basketball team needed a rebounder and a shot blocker, and a point guard. The team that Stan put together certainly had that. We had a Wharton MBA, and CFOs at two or three different major utilities. One of our partners, Doug Dunn, was the co-chair of the global energy practice at Milbank.

Another partner, Julie Cannell, is an analyst, and Jim Speyer is an economist. We all brought different skills to the table. It was truly a team. That's the way that we were formed.



I believe that our client base included financings that involved about twenty-five percent of the natural gas and electric utility industry. That's kind of the long and short of how I did it.

I took a fresh look with a group that essentially built a theme of everything old is new again, or what goes around comes around. That's largely what we're doing by asking utilities to increase the level of their financings with local banks.

shot in their credit by introducing them to utilities, so that they can do business together. I'll never forget those meetings.

I'll tell you who was particularly excited about it. My good friend David Armstrong, may he rest in peace, was the chairman of the Kentucky Commission. He attended the meeting himself. He used to be the mayor of Louisville, and was an integral part of building the Muhammad Ali museum there.

In the syndication process, we invite utility CEOs and CFOs to meet presidents of small local banks.

PUF's Steve Mitnick: Do you feel like you're making a difference now? Are there one or two cases where you're proud of your role?

Wendell Holland: Yes. I'm just an old utility lawyer, an old utility regulator. In the syndication process, as part of our process, we invite utility CEOs and CFOs to meet presidents of these small local banks.

We did a meeting in Kentucky. I think it was in Louisville, in a modest hotel. We had maybe twenty to twenty-five people there. The bulk of them were small town bankers. I'll never forget the sense of hope.

They all showed that during the introductory meeting, where they had a chance to meet the CEO of the utility and become part of the "utility club."

These bankers weren't the most sophisticated Wall Street types. They were small community bankers. Here, we've given them literally a financial

I'll never forget how David came to me almost in tears and said, "Wendell, what you're doing is good stuff." Yes, I've got a lot of memories, but to see the joy and the sense of hope on the faces of executives at small banks who help their local communities, and my colleagues, it's interesting.

I go back to NARUC meetings and I get a chance to go to the commissioners' meeting. When you're invited to that, that means you're an official old guy. Everybody talks about what they do.

When I talk about my community banks syndication work, everybody kind of scratches their head as if to say, "Wendell, gee, what is that?" I explain it to them, and I explain it to sitting commissioners.

They say, "Boy, that's different. That's a very uncommon approach to regulation and making sure that the public receives the benefits that we're trying to offer in regulation." PUF

The Commerce Department reported on September 29 that just 1.3 percent of American's consumer expenditures in August 2017 were for electric bills. Going all the way back to January 1959 – in 704 months – consumer expenditures were a smaller percent only twice. And those were in January and February 2017.

In 2017 year-to-date, electric bills were at an all-time low of 1.32 percent of consumer expenditures. How does that compare to recent years? It was 1.38 percent in 2016 to-date, 1.46 percent in 2015 to-date, and 1.49 percent in 2014 to-date.