

Strategic Use of Public Revenue Bonding Authority to Accelerate Transmission Development

Grid Strategies and Enersights

Prepared for: Colorado Electric Transmission Authority (CETA)

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General Obligation Bonds vs Revenue Bonds

Public bonding authorities can issue two types of bonds:

1. General obligation (GO) bonds

- **Repayment:** From the general funds of the issuing government;
- **Backing:** Full faith and credit, including taxing power.

Relatively lower credit risk than revenue bonds, therefore lower interest rates than revenue bonds

2. Revenue bonds

- **Repayment:** Solely from the revenues generated by the specific project they finance;
- **Backing:** Not backed by taxing authority or state balance sheet.

Relatively higher credit risk than GO bonds, therefore higher interest rates than GO bonds

CETA can issue revenue bonds

Repayment certainty and perceived risk determine financing terms

Transmission requires large upfront capital outlays years before revenue begins...



Long timelines create exposure to permitting risk, regulatory risk, cost recovery uncertainty, and regional cost allocation outcomes...



Financing terms (interest rates, investor appetite, required return) are fundamentally driven by uncertainty and risk.

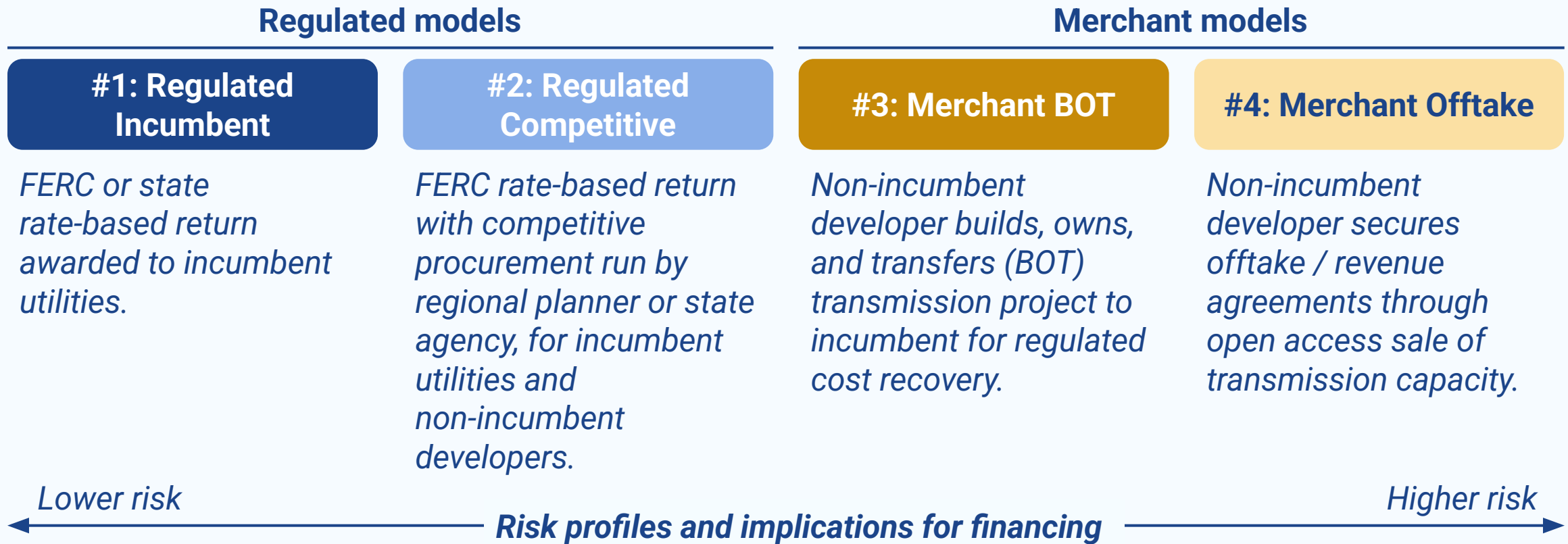
Lower risk

Higher risk

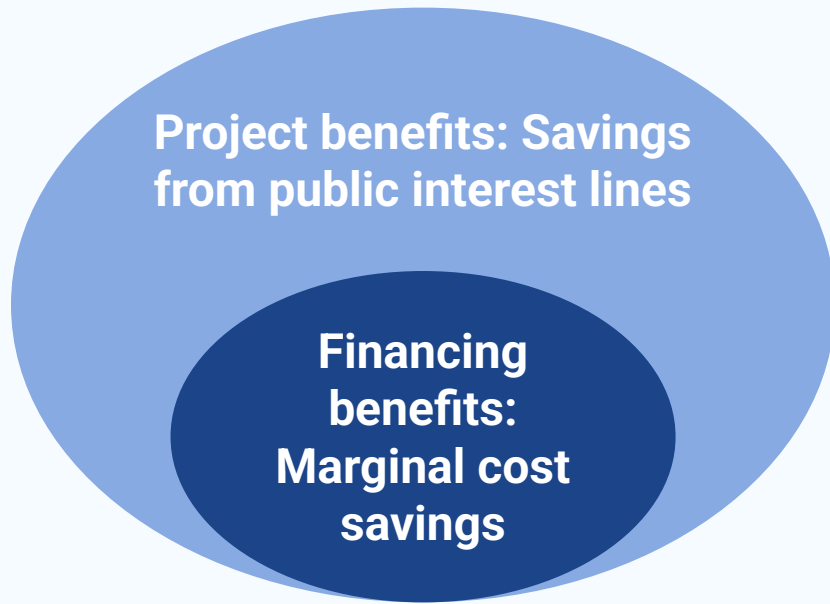
Projects with regulated tariffs or long-term contracts can attract low-cost debt because repayment is assured, though execution risks remain.

Projects advancing without secured revenue must rely more heavily on high-cost equity, if they can be financed at all.

Underlying revenue stream determines repayment certainty and perceived risk



Public financing offers incremental cost advantages, but its real value lies in enabling transmission projects that deliver long-term reliability, cost, and policy benefits



Financing benefits: can generate marginal, incremental cost savings through state tax exemptions on revenue bonds—particularly for early-stage development activities.

Project benefits: can help advance transmission lines that private markets cannot initiate on their own, that will ultimately deliver long-term net benefits to ratepayers through reduced congestion and improved reliability.



Public financing should not replace utility financing to drive affordability through altering cost-of-service economics. Its value is strategic: enabling projects to move forward, which might otherwise stall in development, by funding higher-risk, earlier-stage merchant activities.

Under Colorado Revised Statutes § 40-42-104, CETA can issue revenue bonds to finance transmission development



Bonding powers: CETA has full statutory authority to issue and sell transmission bonds, up to 30 years in term, with fixed or flexible interest rates. Bonds are payable only from CETA funds and do not create state debt or obligations.



Bonding fund and security: A dedicated Bonding Fund is created, sourced from project revenues, fees, and bond proceeds. Money in the fund is pledged to bond repayment, and the state pledges it will be used only for statutory purposes.

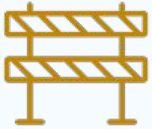


Tax treatment: CETA bonds and their interest are exempt from state and local taxation. This improves after-tax investor returns and supports lower interest rates relative to taxable corporate debt.

CETA can structure its bond products to match project risk and revenue timing, while signaling public purpose for a project



Aligning capital deployment with development milestones: Milestone-based or delayed-draw bonds can reduce sole reliance on expensive equity by releasing capital only when major approvals are secured.



Capitalized interest and construction-period flexibility: Revenue-aligned repayment, such as capitalized interest or interest-only periods, can ensure that debt service does not begin before tariff or contract revenues flow.



Pooling smaller participants to achieve scale: Pooled issuances can aggregate smaller municipal or cooperative needs to achieve scale, diversify risk, and tap a broader investor base.



Public participation improves stakeholder confidence: When a state or public authority engages in a project, it sends a clear signal to local governments, consumer advocates, and community groups that the project aligns with state priorities.

Public financing can complement private capital, but is not a substitute for the debt and equity financing structures that underpin utility economics

Substituting utility equity with CETA bonds would not significantly reduce customer rates unless those bonds were backed by a state guarantee, which Colorado's statute explicitly prohibits.



Without that guarantee, CETA's revenue bonds are treated by the market as a non-recourse obligation.



As a result, substituting utility equity with CETA bonds may not reduce customer rates and may instead introduce added complexity, without cost savings.



CETA's value proposition is not in artificially lowering the cost of inherently risky capital, but in strategically providing structured, mission-aligned capital that helps viable projects advance to the point where private financing becomes feasible and affordable.