LOTIC LABS

Revenue Resilience for Water and Wastewater Utilities

INTRODUCTION

Lotic Labs develops financial risk management products for water and wastewater utilities to more effectively manage cash through supply/demand shocks, unplanned maintenance events, and the credit underwriting process. The company currently offers revenue insurance that provides payouts during droughts, extended wet periods, and unplanned maintenance events.

CRITICAL CHALLENGES TO UTILITIES

Efficient and effective capital management has never been more important to the water and wastewater industry facing the impact of decreasing per capita water consumption coupled with high rates of urban expansion. These factors force utilities to cover the fixed costs of new infrastructure financing over a proportionately smaller revenue base, with financial strain further exacerbated by:

Revenue Volatility: Environmentally-driven supply and demand shocks can lead to substantial revenue losses. Utilities slash discretionary budgets to counter shortfalls, leading to the deferment of critical initiatives and other frictions beyond direct revenue loss. The alternative of fixed pricing can hamper conservation incentives.

Aging Infrastructure: Leaky infrastructure and faulty meters lead to 15-40% system water losses, and the industry must spend $30B annually over the next 10 years to maintain current service levels. Maintenance initiatives are often the first cut during substantial revenue swings, increasing future risks and capital outlays.

Stranded Capital: Significant quantities of capital sit stranded on utility balance sheets serving primarily as “rainy day” funds for risk management. The capital is kept as cash, earning little to no return. This capital is also largely underutilized for funding critical initiatives like maintenance.

Critical Credit Ratings: Debt service constitutes significant portion of utility expenses, making high credit ratings essential to lowering the cost of capital. Ratings methodologies, however, incentivize holding excess cash but can lead to underutilized resources. Meanwhile, cost-effective credit enhancements are limited to large players.

REVENUE INSURANCE

We design and broker bespoke-to-buyer hedging contracts that provide financial relief when environmental conditions lead to lost revenues. Our contracts are pegged to an index of environmental variables allowing for automatic payouts and no claims process. Payout fulfillment is provided by our (re)insurance and investment partners so we can offer highly reliable financial recourse during the time of greatest need and at the lowest price.

Working with each utility to address their unique risk requirements, we can customize contracts to any of the following criteria:

Location and geography
State, municipality, and watershed

Hydrology and weather variables
Streamflow, snowpack, etc.

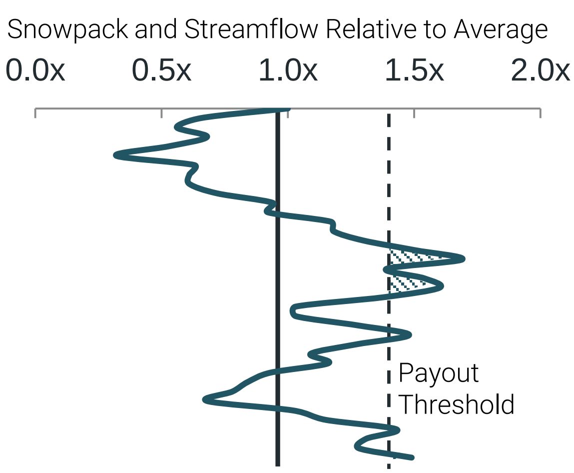
Contract duration
1-5 years

Revenue or cost protection
Desired risk mitigation

Payment triggers and thresholds
Cumulative or absolute metrics

Coverage amount and structure
Deductible, payout unit, maximum

Illustrative Contract Index

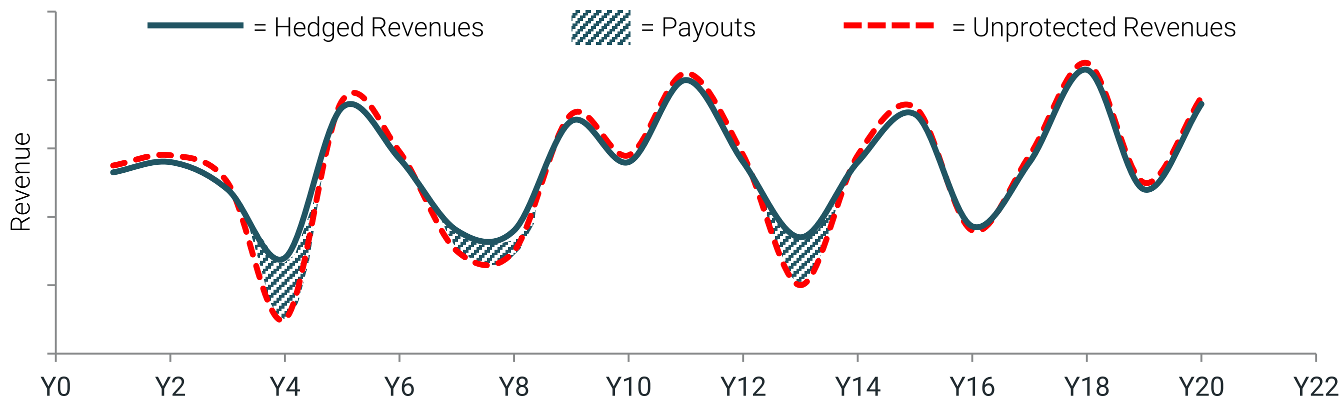


Value Proposition

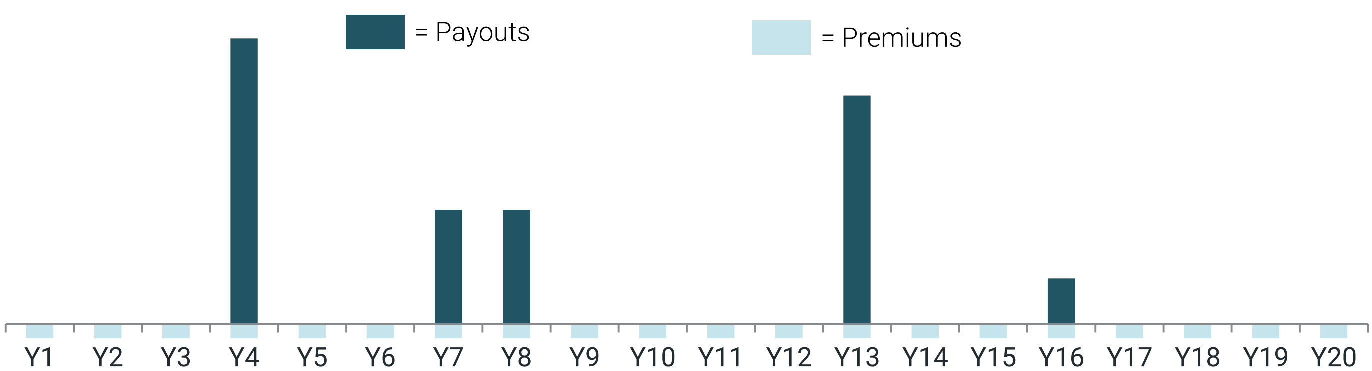
- ✓ Reduce revenue volatility
- ✓ Ensure fixed cost coverage
- ✓ Ease working capital constraints
- ✓ Protect financial reserves
- ✓ Minimize financial strain on ratepayers

REVENUE INSURANCE (CONT'D)

Insurance Performance: Unprotected vs Hedged Revenues



Insurance Performance: Premiums and Payout Comparison



Contact us to learn more about Revenue Resilience Insurance:

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