

Utility Asset Securitization

Helping Consumers, Utilities and Affected Communities

MN House Climate and Energy Committee

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Why Use Securitization?

Ratepayer Savings!

Because AAA ratepayer-backed bonds have a lower interest rate than the utility's capital cost, (e.g. 3% compared to 7.6%) ***customers save money.***

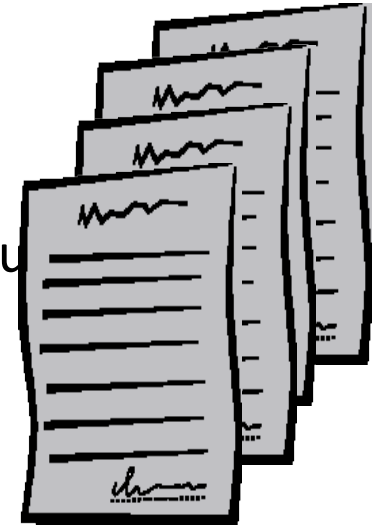
[Lower finance costs = Lower bills]

Precedent for Securitization

- This idea is not new – it was used during wholesale electric restructuring in the late 1990s to finance “stranded costs” of some utilities.
- Recent Uses:
 - **Duke Energy (FL)** recently used securitization to finance \$1.3 billion in assets of a closed nuclear plant in Florida. **The interest rate is 2.72%, much lower than Duke’s rate of return. The deal saves customers \$680 million over 20 years.**
 - **Consumers Energy (MI)** \$389.6 million in securitization bonds to capture the unrecovered net book value of 950 MW of coal-fired capacity retired in 2016.
 - **Allegheny Energy (WV)** used ratepayer-backed bonds to finance \$460 million of pollution control upgrades; the bonds are rated Aaa (or AAA).

An Approach

- If a power plant closes, utilities might have undepreciated assets on their books that ratepayers must pay back, even though the plant is no longer running.
- Rate reduction/Ratepayer-backed bonds can be used to refinance the closed plants at lower cost.
- This is called “securitization.” Because these AAA bonds have a lower interest rate than the utility’s capital cost, (e.g. 3% compared to 7.6%) **customers save money** and the utility moves a stranded asset off its books.
- ***A portion of the savings can be used for assistance for workers and communities displaced by coal plant closures.***



State Legislation Key to AAA rating

- **Nonbypassability:** All customers are responsible for a charge regardless of energy provider.
- **Irrevocability:** The utility's right to collect the charge cannot be altered.
- **Property right:** Right can be pledged as a security interest.
- **State pledge:** State pledges to not alter the utility's right to collect.
- **TRUE-UP mechanism:** Periodic automatic adjustment to ensure charges cover debt service.

State Legislation (cont.)

- **Bankruptcy of the utility:** Establishes utility's right to receive and transfer the rights to the charges as a "true sale" of those rights, rather than as a financing of the utility.
- **Bankruptcy of financing vehicle:** To protect investors, financing vehicle has no assets other than the right to the cost recovery charges; no indebtedness other than the securitization debt.
- **Defines critical PUC oversight role.**
- **Defines allowable uses for the bonds.**
- ***RRB bonds are not a public debt backed by credit of the issuing state.***

State Legislation - CHALLENGES

- **Complex Language**
- **Bill Length**
- **Educating constituencies**
- **Opposition**
- **Tricky Negotiations**
 - IOU interests
 - Protections for ratepayers

State Legislation - Stakeholders

- IOU**
- Communities/Customers**
- Labor Unions**
- Office of Consumer Counsel**
- Commercial/Industrial energy users**
- PUC Commissioners and staff**
- Environmental advocates**

National Securitization Momentum

- **CO HB17-1339 – Model Legislation**
 - Montana - 2019 PASSED
 - Colorado – 2019 PASSED
 - New Mexico - 2019 PASSED
 - North Carolina – 2019 PASSED
- **2021 Bills: MO, KS, IN, MN**
- **Exploring Amending Statute: WI, NC, TX**
- **National Association of Regulatory Utility Commissioners**

Pending Securitization Bond Issues

2021

- **CA – \$7.5-\$10B**, Wild fire costs
- **NM - \$327M**, Coal plant retirement, transition assistance
- **WI - \$102M**, Pollution controls cost
- **MI - \$678M**, Coal Plant retirement
- **NC - \$1B**, Storm cost recovery

Interest rates will likely be 2%-3%.

MN BE161

- **Creates Energy Transition Bonds**
- **Includes Key Rating Agency Criteria**
 - Requires bonds achieve AA or better rating
- **Defines Allowable Uses**
 - Plant retirement or replacement costs
 - Pretax costs of closure or replacement of electric infrastructure or facilities prior to effective date of the act.
 - Transition assistance for workers
- **Defines Commission oversight**

Thank you

Questions?

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