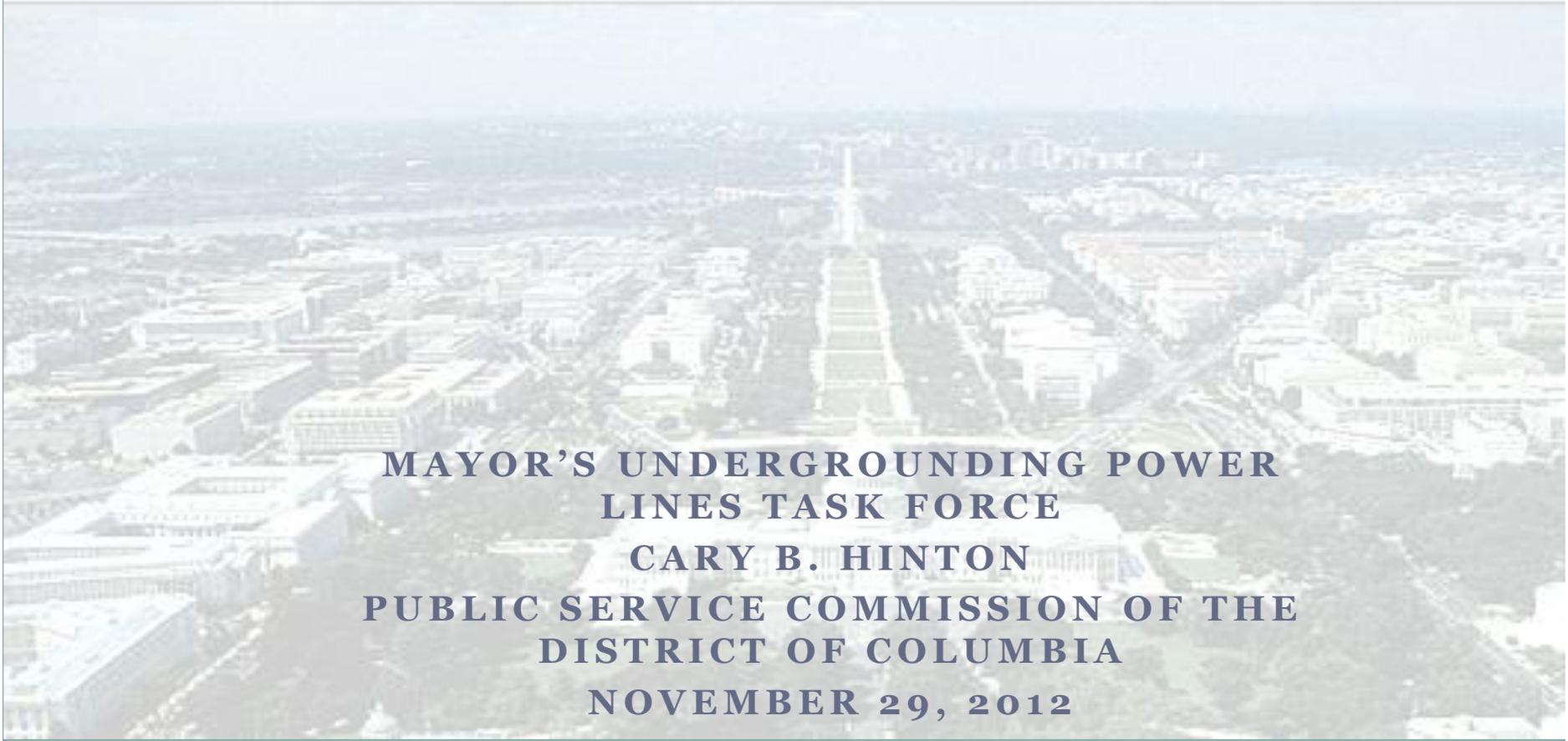


Electric Utility Securitization



**MAYOR'S UNDERGROUNDING POWER
LINES TASK FORCE
CARY B. HINTON
PUBLIC SERVICE COMMISSION OF THE
DISTRICT OF COLUMBIA
NOVEMBER 29, 2012**

What is It?

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- A Method to Provide Financing to an Utility at a Lower Cost – Mitigates Increased Rate Impact for Customers
- Authorized by Law and Commission Order
- Electric Utility Subsidiary That is Bankruptcy-Remote Issues Bonds
- Right to Collect Surcharge on Customer Rates is “Sold” to Utility’s Wholly-Owned Special Purpose Entity

Utility Securitization Bond Transactions

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- 1997–2012: 54 Bonds in 14 States @ **\$46.8 B**
- All Bonds Issued @ AAA Credit Ratings
- 1/2012 Centerpoint Energy (TX) @ \$1,695.0 M
- 3/2012 AEP (TX) @ \$800.0 M
- Credit Ratings Agencies Limit 10-15 Year Bonds' Annual Securitization Fees to 10 – 20% of Aggregate Electricity Supply & Distribution Sales in Utility's Territory
 - **2011: DC Revenues ≈ \$1.4 B**

History

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- Used in the 1990's for Stranded Costs (i.e., Investments in Cancelled Nuclear Power Plants)
- Expanded Use for Purchased Power, Hurricane Recovery & Environmental Compliance Costs
- 20 States Have Enacted Authorizing Legislation
 - 2006: Maryland Enacts Legislation & Commission Approves Irrevocable Qualified Rate Order to Authorize BGE to Issue \$630 Million in Bonds to Securitize a Phase-In of Previously Approved 72% Increase in Residential Rates
 - 2011: Ohio and West Virginia Enacted Authorizing Legislation

Requirements

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- Rating Agencies Have Specific Requirements for 'AAA' Bond Rating
- IRS Safe Harbor Has Specific Requirements for Proceeds to Be Non-Taxable
- These Requirements Must Be Included in Authorizing Statute and Commission's Financing Order:

Securitization Authorizing Legislation

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- Enacted to Facilitate Recovery of Specified Costs by Public Utility
- Authorizes Utility to Apply for – & Commission to Issue -- A Financing Order Specifying Amount to Be Recovered Through Customer Surcharge
- Authorizes Utility to Create Special Purpose Entity
- Utility Acquires Intangible Property Right
- State & Commission May Not Rescind or Amend – Except for Periodic True-Up of Customer Surcharge

“Intangible Property Right”

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- Right to Collect Customer Surcharge
- Non-Bypassable Surcharge
- Surcharge is Paid by All Customers in Utility’s Distribution Service Territory
- Includes Customers Who Purchase Energy from Third Party Suppliers

Special Purpose Entity (SPE)

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- SPE is Wholly-Owned by Utility
- Utility Sells “Intangible Property Right” to SPE
- SPE Issues Bonds to Purchase “Intangible Property Right” (to Collect Customer Surcharge)
- Distribution Utility Collects Surcharge from Customers on Behalf of SPE

Implementation Steps

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- Authorizing Legislation Passed (With More Details & Time Deadlines – Less Time Needed for the Following Implementation Steps)
- Company Files Application with Commission
- Commission Considers Application – Parties May Contest
- Commission Issues Financing Order – Parties May Appeal
- After Appeals Period Ends, Bonds Go to Market

Advantages

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- Lower Overall Cost to Utility Compared to Traditional Financing – Thus, Lower Costs to Customers
- Provides Cash to Utility Without Time Lag of Revenue Collections
- May Bolster Utility Credit Rating; Thereby, Lowering Traditional Financing Costs

Disadvantages

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- Inflexible – Financial Terms May Not Be Altered During Bond Term Regardless of Changing Circumstances
- Commission Approval Process May Be Delayed By Parties' Contests and Appeals
- Typically Used by Electric Utilities with Historical, not Prospective Costs (However, Other Industries Also Use Future-Flow Securitization)

The End



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