

Government of the District of Columbia



Status Update: Mayor's Undergrounding Task Force Finance Committee

October 24, 2012.

Projected Scope

- The Committee is examining project scenarios that are similar in scope to Options 2 and 3 of the Shaw report, which should result a 65-87% reduction in District-wide customer outages
- Prioritization of individual Mainline, Lateral and Secondary lines for undergrounding will be determined initially by the Technical Committee and then by a formal approval process

Financing Methods

- Three general financing schemes were investigated by Finance Committee
 - Pay As You Go (Cash Flow)
 - Third-Party Financing
 - Utility Securitization

Pay As You Go / Cash Flow

- Utility uses surcharge to finance construction costs as incurred
- Pros:
 - Low financing costs, limited to short-term borrowing costs
 - Maximum flexibility for construction and procurement
- Cons:
 - Limits ability to bring improvements on-line quickly without significant surcharges
 - Better for smaller scope and longer timeline (i.e., 20 year construction schedule)

Third-Party Financing

- Debt-Supported Contribution in Aid of Construction (CIAC)
 - Long-term debt
 - Ratepayer surcharge to support
- Pros:
 - Payments spread over a long period
 - Construction period not tied to payment period
- Cons:
 - Higher cost
 - Controls needed to insure proceeds are earmarked strictly for undergrounding project

Utility Securitization

Securitization refers to Laws and Commission Orders needed to set-aside (“secure”) a stream of ratepayer fees that are dedicated to paying off bonds issued by a separate entity protected from utility bankruptcy

- Utility serves as a collection agent for the fees
- Commission cannot change the Financing Order
- Legislature cannot amend the authorizing statute
- Approximately 20 states allow for utility securitization

Utility Securitization

- Pros:
 - Very low cost of borrowing (AAA rating);
 - No equity return for utility also lowers financing costs
 - Very low risk
- Cons:
 - Inflexible: Requires enabling legislation and financing opinion that cannot be changed regardless of changing circumstances
 - Total borrowing may be limited to 15-20% of total Utility rate base (if so, could not finance a project of this scope in its entirety)