

Utility Asset Securitization: Helping Consumers, Utilities and Affected Energy Communities

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Colorado House of Representatives

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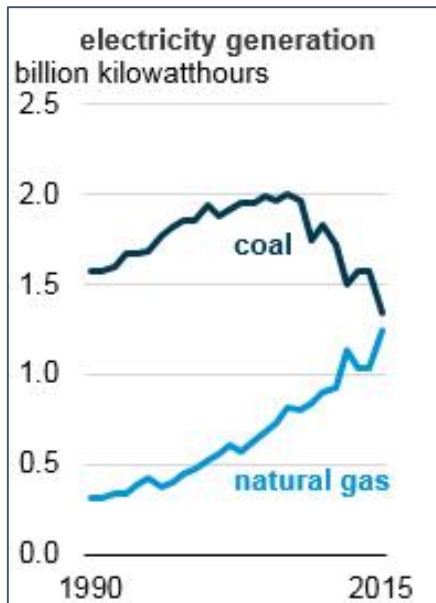
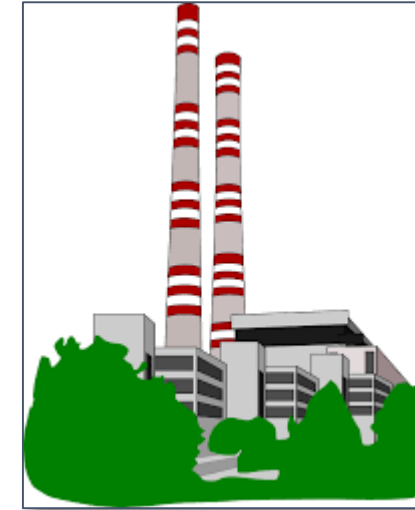


Colorado HB 17-1339
Representatives Chris Hansen &
Daneya Esgar

Utility Asset Securitization:
Helping Consumers, Utilities and
Affected Energy Communities

The Challenge

- Across 43 states, 558 coal-fired electric generating units (105,000 MW) have shut down or plan to shut down over the period 2010 –2025, approximately 30% of the total installed base.*



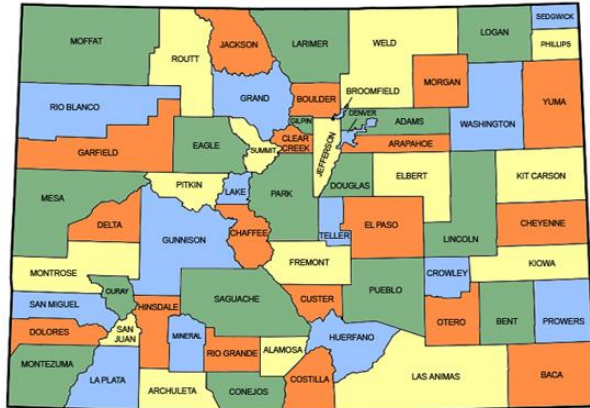
- In 2016, for the first time in U.S. history, more Natural Gas was used for electricity production than Coal.**

*American Coalition for Clean Coal Electricity.

**Energy Information Administration

The Challenge

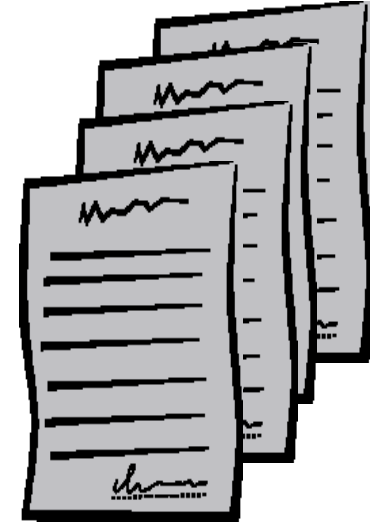
- Coal plant closures are likely to continue, given the lower costs of alternative generation, especially natural gas and wind generation.



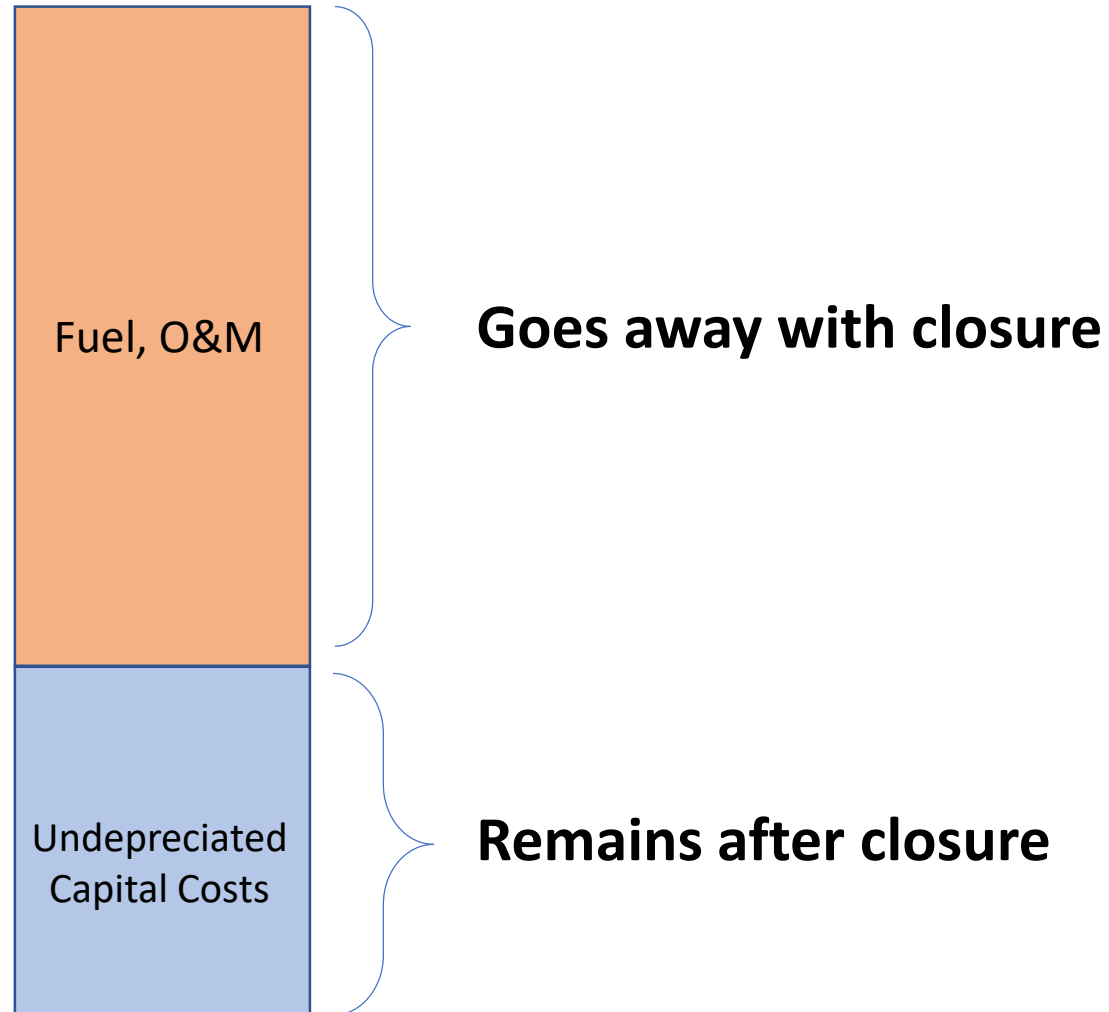
- Colorado should plan ahead for this possibility and reduce the impact of this trend on affected Colorado workers and communities.

An Approach

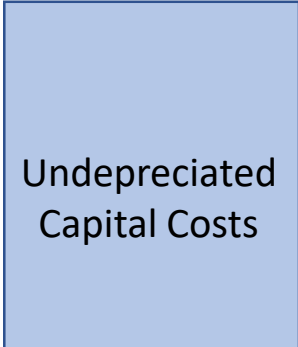
- If a power plant closes, utilities might have undepreciated assets on their books that ratepayers must pay back, even though the plant is no longer running.
- Ratepayer-backed bonds can be used to refinance the closed plants at lower cost.
- This is called “securitization.” Because these AAA bonds have a lower interest rate than the utility’s capital cost, (e.g. 2.8% compared to 7%) 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.



The Cost of a Power Plant



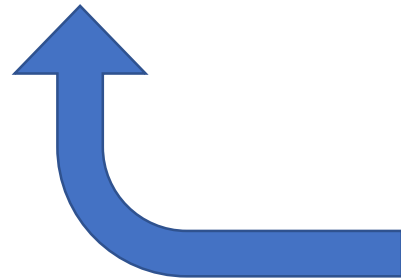
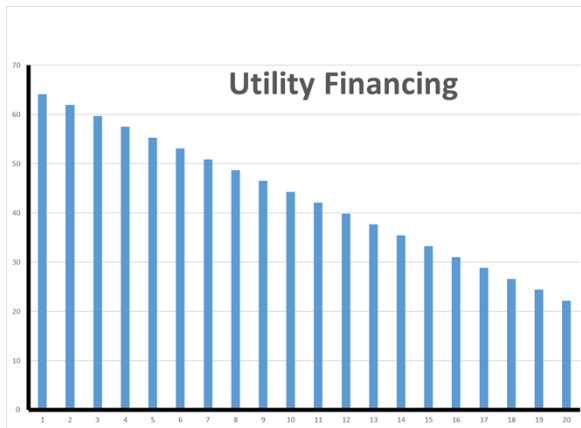
How to finance the stranded costs



Undepreciated
Capital Costs

How to finance the stranded costs

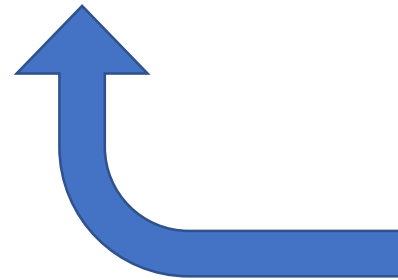
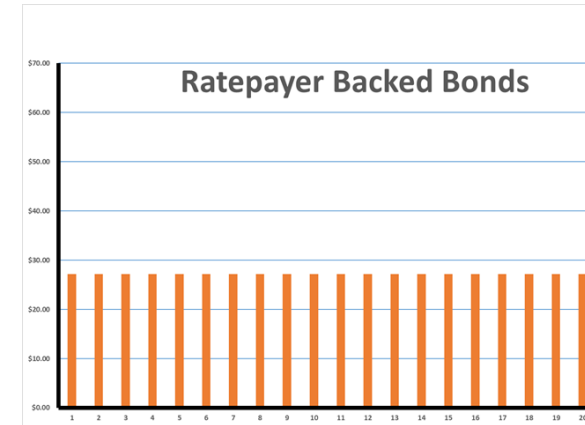
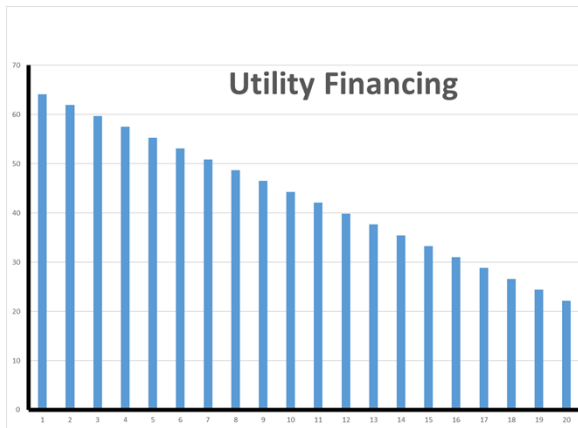
Two choices:



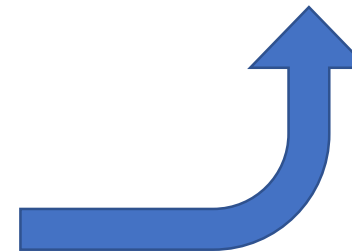
Undepreciated
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How to finance the stranded costs

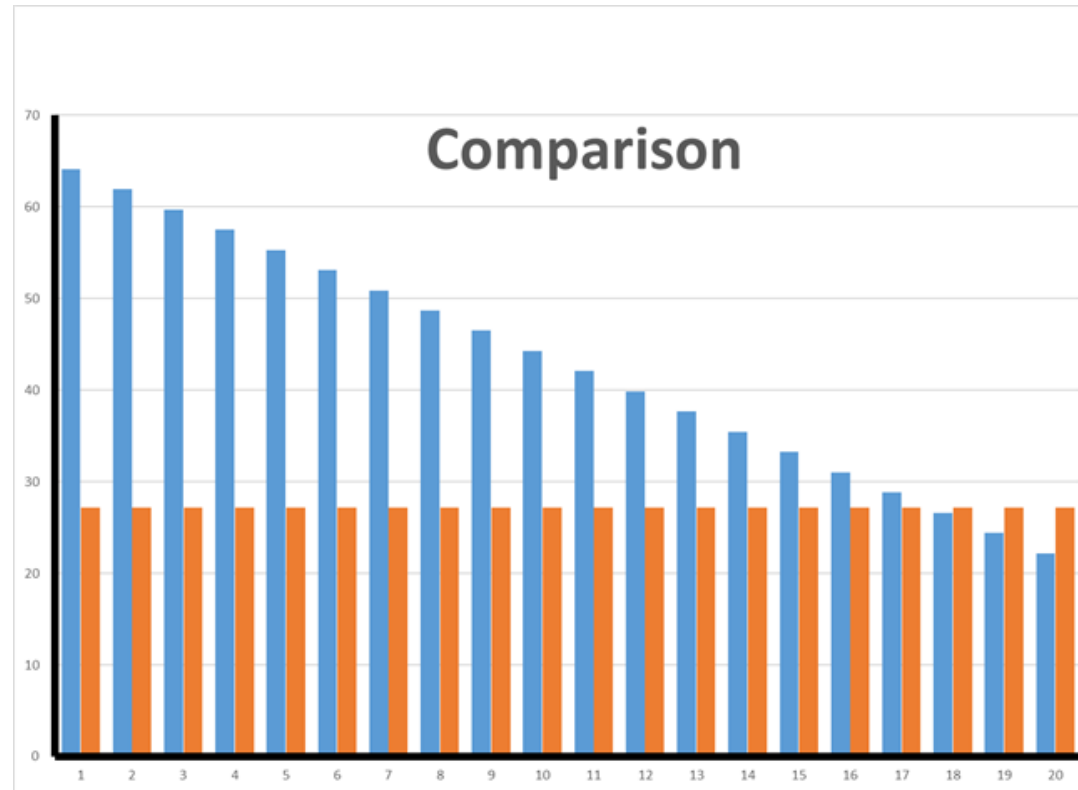
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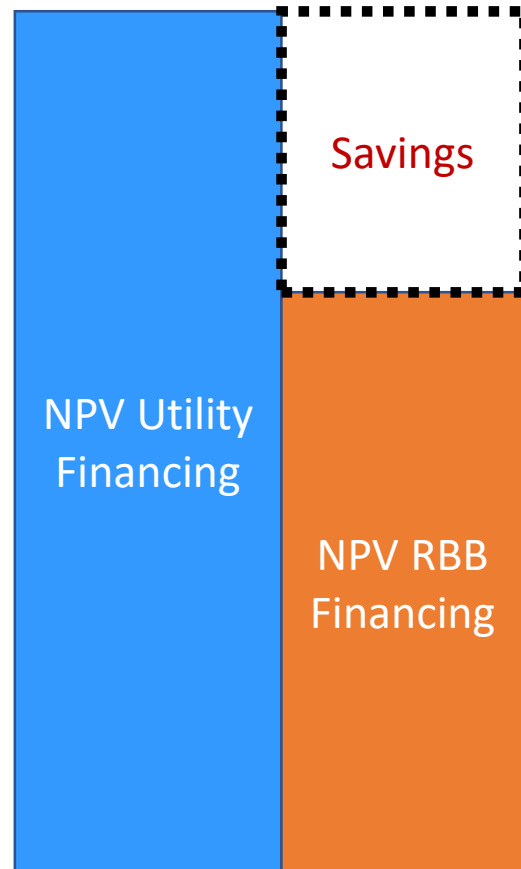
Undepreciated
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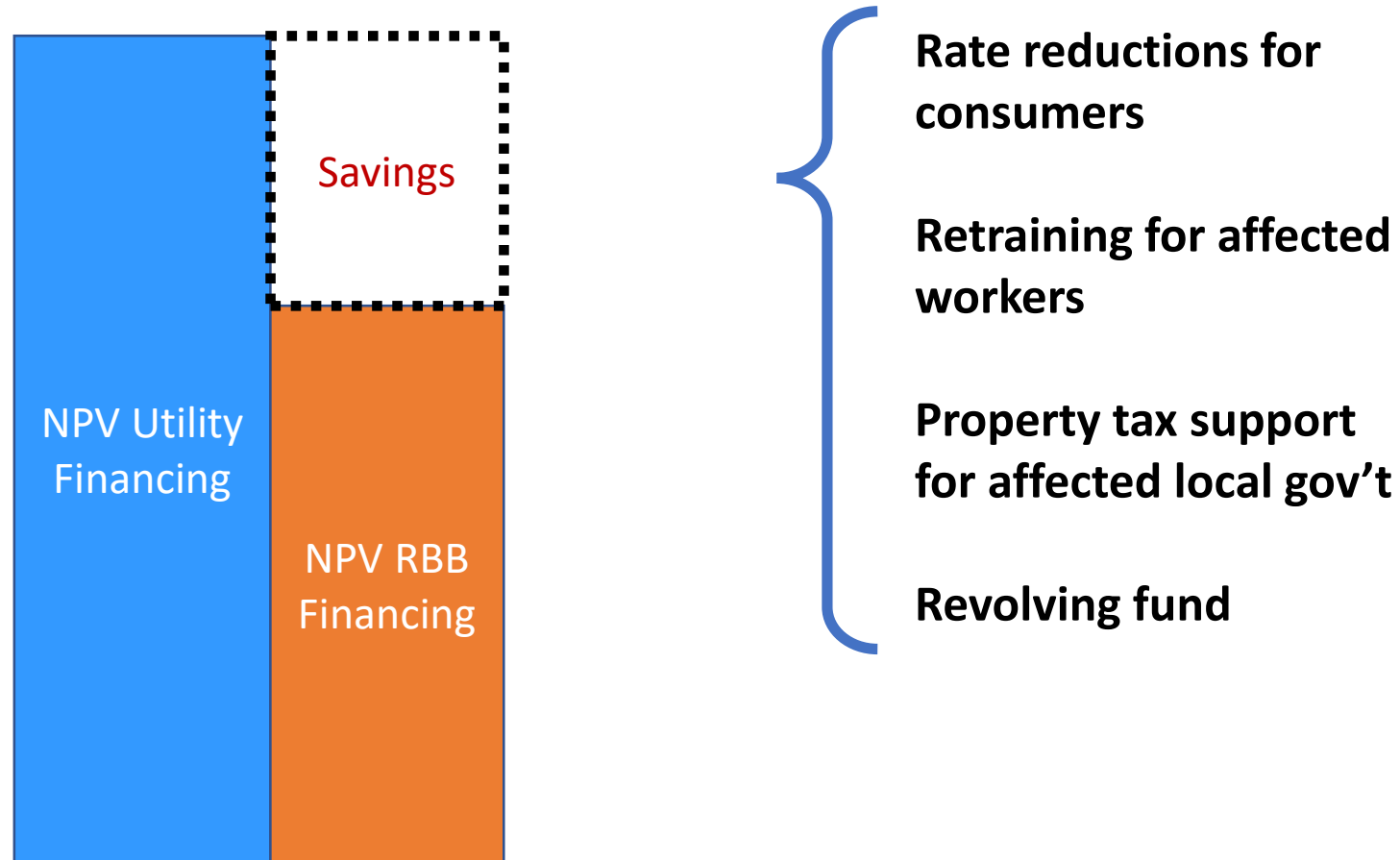
Ratepayer-Backed bonds will produce substantial savings...



Ratepayer-Backed bonds will produce substantial savings...



The savings can be used for several purposes



What Colorado HB 17-1339 does:

(Reps. Chris Hansen & Daneya Esgar)

- Permits Colorado investor-owned utilities to use “securitization” when and if a generation asset is no longer economical or is at the end of its useful life.
- Directs 15% of the savings from securitization to assist workers and communities affected by the closure.
- Establishes the Colorado Energy Impact Assistance Authority (CEIAA) to administer the assistance.

What HB 1339 does not do

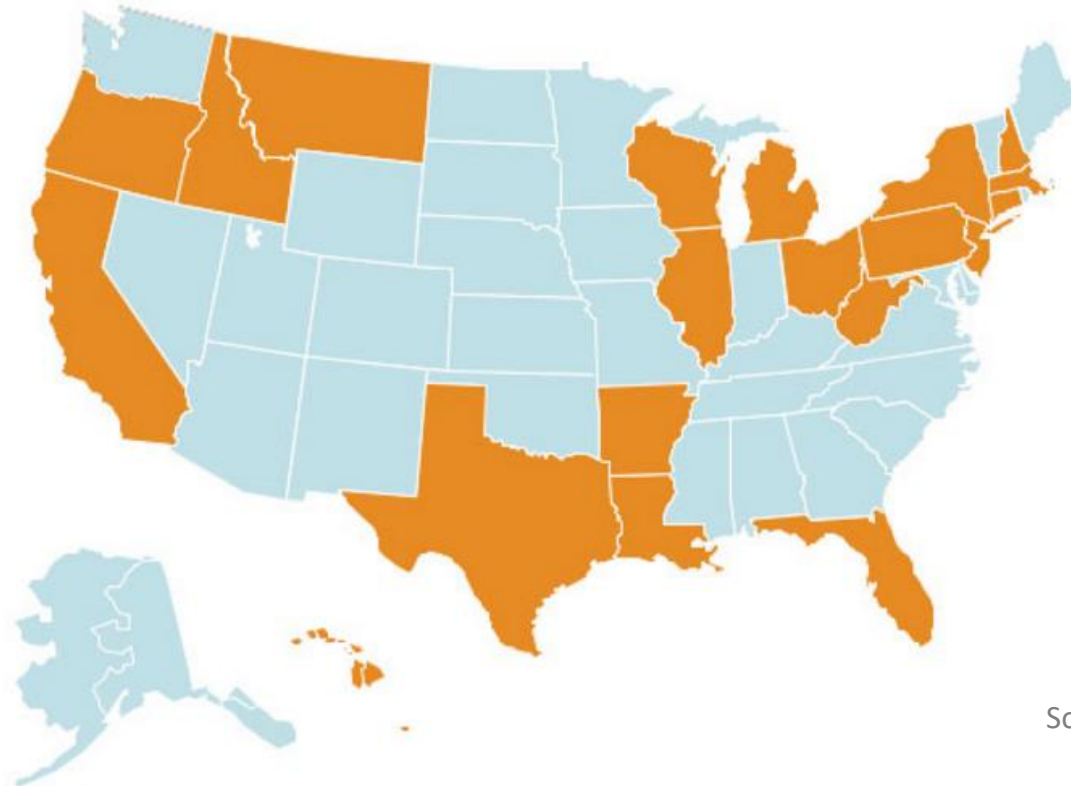
- Does not require the use of securitization. It is an option for a utility to use.
- Does not mandate the closure of any power plants.
- Does not raise utility rates; it lowers them.
- Does not affect TABOR limits.
- Does not have a fiscal impact or create state debt.

Precedent for securitization

- This idea is not new – it was used during wholesale electric restructuring to finance “stranded costs” of some utilities.
- Securitization is being used today:
 - **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 \$700 million over 20 years.
 - **Consumers Energy (MI)** received approval from the PUC to sell \$389.6 million in securitization bonds to capture the unrecovered net book value of 950 MW of coal-fired capacity retired in 2016.
 - **WEPCO (WI) & Allegheny Energy (WV)** used ratepayer-backed bonds to finance \$490 and \$460 million of pollution control upgrades respectively; the bonds are rated Aaa (or AAA).

20 States have statutes that permit securitization of utility assets. Colorado does not.

States with Past or Current Enabling Utility Fee Securitization Legislation



Source: Saber Partners

Hypothetical \$300M Xcel Securitization

Large Ratepayer Electric Bill Impact

Tariff Class	Savings Year 1	Long Term Savings (18-years)
Transmission General (TG)	-1.4%	-12.4%
Primary General (PG)	-0.8%	-7.4%
Secondary General (SG)	-0.5%	-5.7%

Hypothetical \$300M Xcel Securitization

- **\$31,304,627 for rural economic development**
- **No fuel cost increases as old fossil fuel power plants are replaced with a portfolio of gas, wind, solar, storage or DSM.**

Summary

- HB 1339 authorizes investor-owned utilities to use “securitization” when and if a power plant is closed.
- Directs 15% of savings from securitization to assist workers and communities affected by the closure
- Establishes the Colorado Energy Impact Assistance Authority (CEIAA) to administer the assistance.

Colorado Energy Policy Landscape

2018:

- Power Storage Legislation (On-site and Grid-scale)
- Renew Colorado Energy Office – “All of the Above”
- State Emissions Targets Exec Order

Future:

- Residential and Commercial Energy Efficiency Targets
- RTO Membership?
- Generation Portfolio Transition
- Stranded Asset Tools (Securitization)
- PUC Sunset Review
- Community Solar Updates