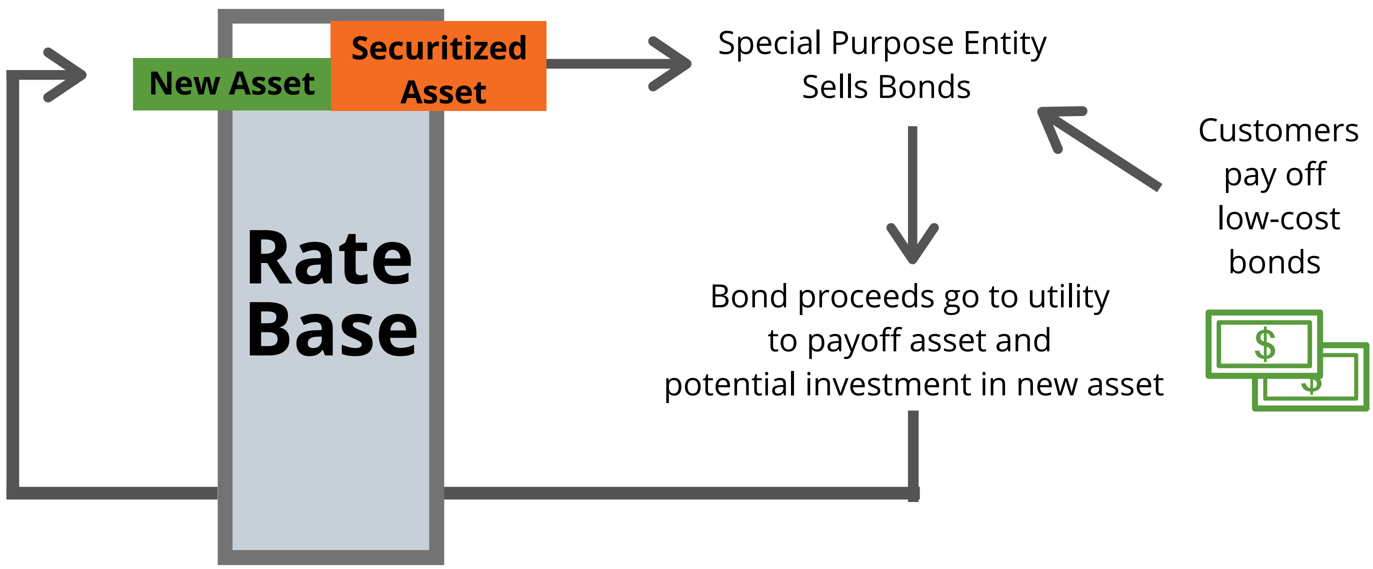
Securitization needs to result in materially lower rates

What is Securitization

Securitization is simply a voluntary financing tool. It's also referred to as "utility asset refinancing" or "ratepayer-backed bonds." Whatever you call it, the intent is to remove and/or refinance costly, and likely underutilized, utility assets from the electric system, and put utilities in a position to transition to cleaner and more modern energy assets.

Securitization should only be allowed if it results in materially lower electric rates. Without a clear customer benefit, it's simply a utility bailout.



Why & How

Investor-owned utilities earn money on their investments in power plants, poles, wires, and other capital equipment. Collectively these investments make up a utility's "rate base." Utilities earn a return on their rate base that includes their cost of capital, paid for by customers. If you can reduce the capital cost and/or remove assets from rate base, rates will go down.

The process of securitization would identify a utility asset (usually a power plant). Bonds would be sold to pay off the utility's unrecovered capital costs, removing the asset from rate base. The bond holders would be repaid from a line-item charge on bills (ratepayer-backed bonds.) It *may* work if the utility's cost of capital is significantly higher than the interest rates for the bonds.

A portion of the bond proceeds given to the utility to retire assets could be reinvested in new assets the utility needs for reliability, if an integrated resource plan dictates.

Language in any securitization bill must clearly state rates will decrease.