



Investor-Owned Utility Securitization Possibilities, Processes, Pitfalls

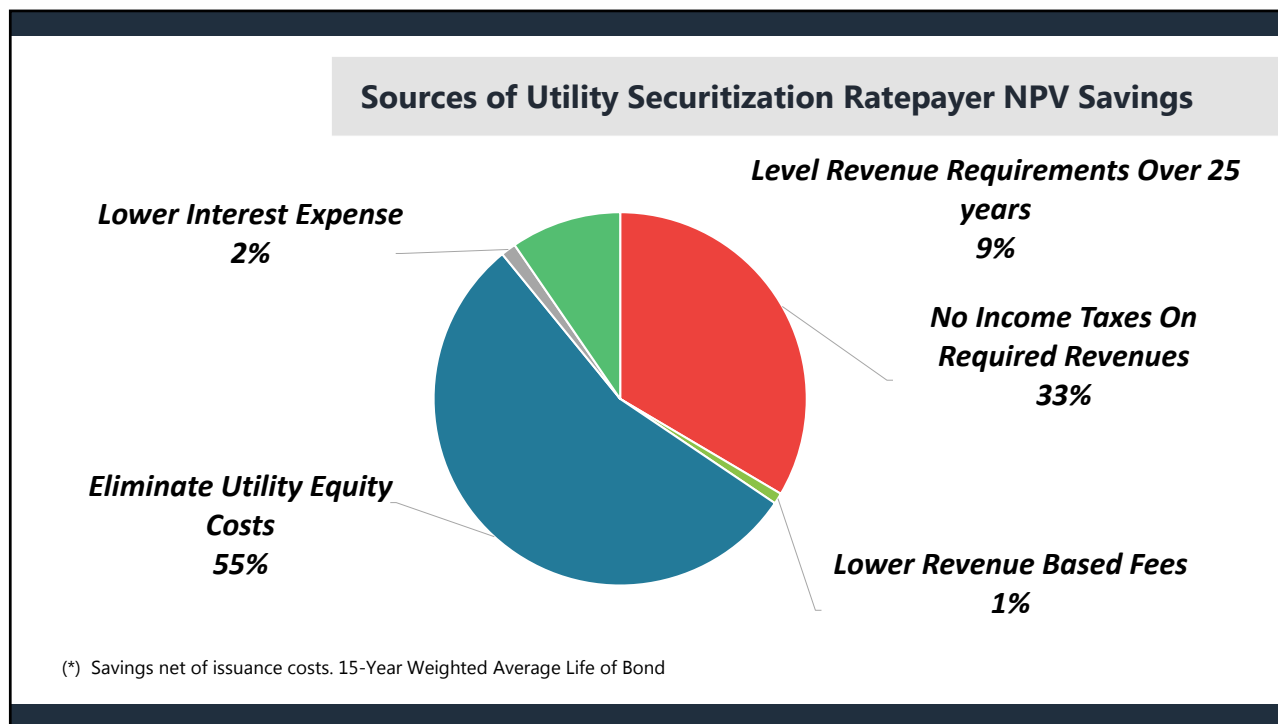
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2000 – Present
\$9,020,000,000

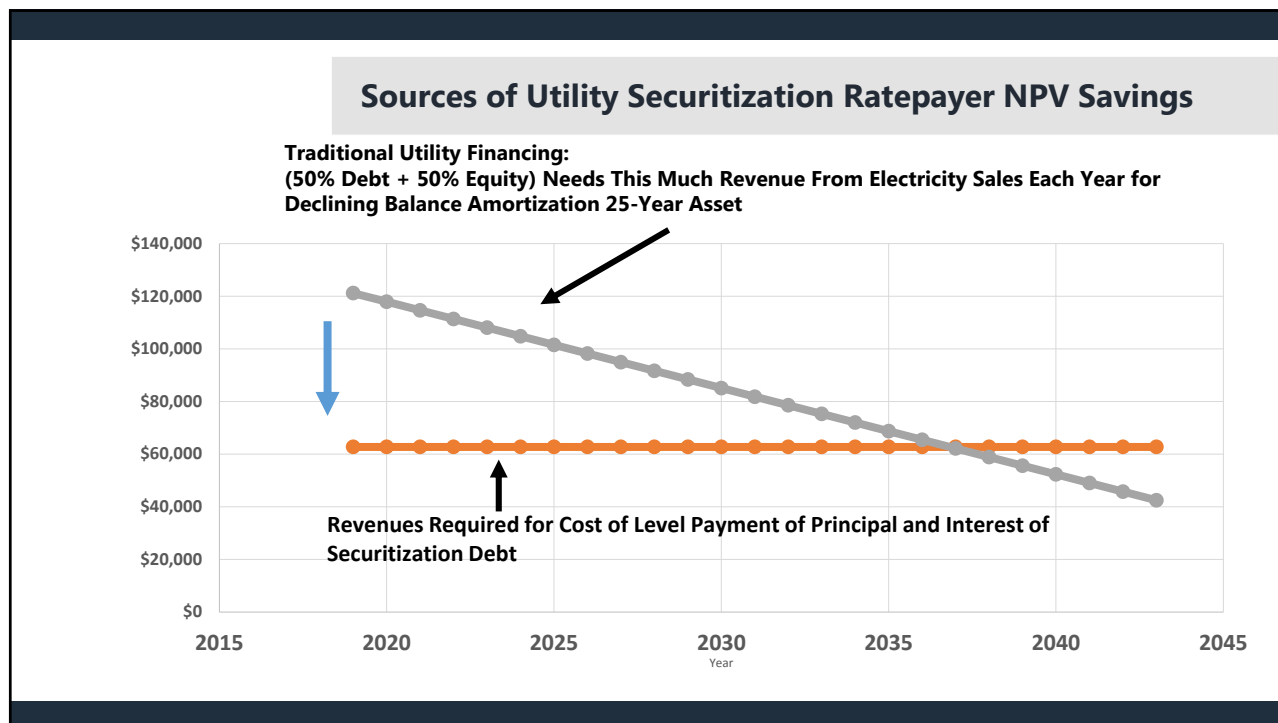
Our Experience in Investor-Owned Utility Securitization, Ratepayer-Backed Bonds: 19 years, Multiple Engagements; Same Personnel Have Advised 6 Commissions, 13 Transactions, \$9.02 Billion in Bonds involving 8 utilities, 25+ Underwriters

Size of Offering \$ Millions	Saber Partners' Role Involving State Utility Regulatory Agencies, Ratepayers and Securitization
N/A	Financial Advisor to Chairman of New York State Public Service Commission
\$748.9	Financial Advisor to Public Utility Commission (PUC) Texas
\$797.3	Financial Advisor to Public Utility Commission Texas
\$500.0	Financial Advisor to Public Utility Commission Texas
\$789.8	Financial Advisor to Public Utility Commission Texas
N/A	Financial Advisor to Vermont Public Service Board (Purchasing Agent, VEPP, Inc.)
N/A	Financial Advisor to Wisconsin Public Service Commission (PSC)
\$102.7	Financial Advisor to New Jersey Board of Public Utilities
\$1,851.0	Financial Advisor to Public Utility Commission Texas
\$1,739.7	Financial Advisor to Public Utility Commission Texas
\$344.5	Financial Advisor to Public Service Commission of West Virginia
\$114.8	Financial Advisor to Public Service Commission of West Virginia
\$652.0	Financial Advisor to Florida Public Service Commission
\$64.4	Financial Advisor to Public Service Commission of West Virginia
\$21.5	Financial Advisor to Public Service Commission of West Virginia
\$375	Financial Advisor to the Office of the People's Counsel (i.e., Ratepayer Advocate) of the District of Columbia Public Service Commission
\$1,294.0	Financial Advisor to Florida Public Service Commission
	Financial Advisor to California Community Choice Association for financial analysis and testimony before the California Public Utilities Commission Rulemaking (CPUC) 17-06-026 Proceeding
	National Regulatory Research Institute (NRRI) Fellow (Joseph S. Fichera) and author of securitization NRRI "Insights" article January, 2019
	Advisor to HEAL Utah (Healthy Environment Alliance) securitization legislation proposal
	Advisor to North Carolina Utilities Commission Public Staff on storm securitization
	\$9,020 Billion

2



3



4

WHY SECURITIZATION?

A "financing tool" to recover unique and significant costs in a way that is beneficial to both the utility and ratepayers.



5

Utility Securitization in a Nutshell

Replaces utility's overall pre-tax cost of capital with a AAA bond rate

Mostly lower level annual revenue requirements versus higher traditional declining annual revenue requirements

Bonds paid by ratepayers through a new nonbypassable and dedicated charge on electricity consumption

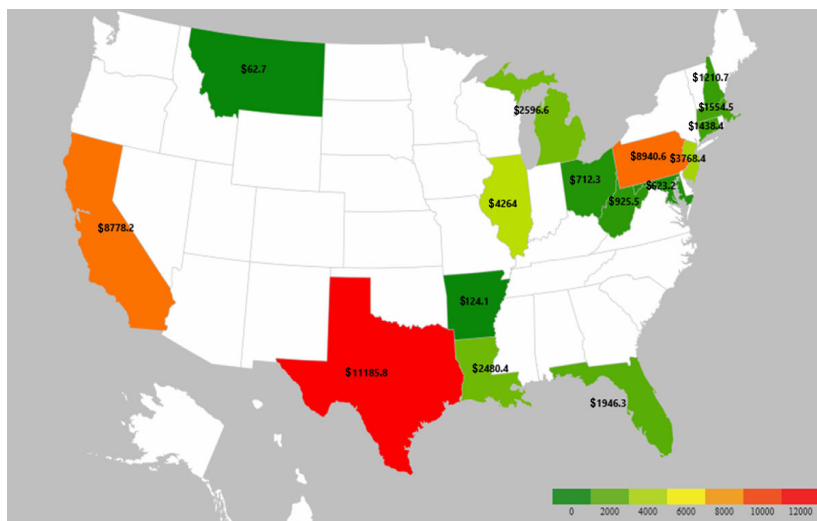
The right to the dedicated charge is sold to a new special purpose entity to secure its bonds issued to investors

PSC mandated always to adjust the charge to guarantee bonds paid on time. State promises never to interfere!

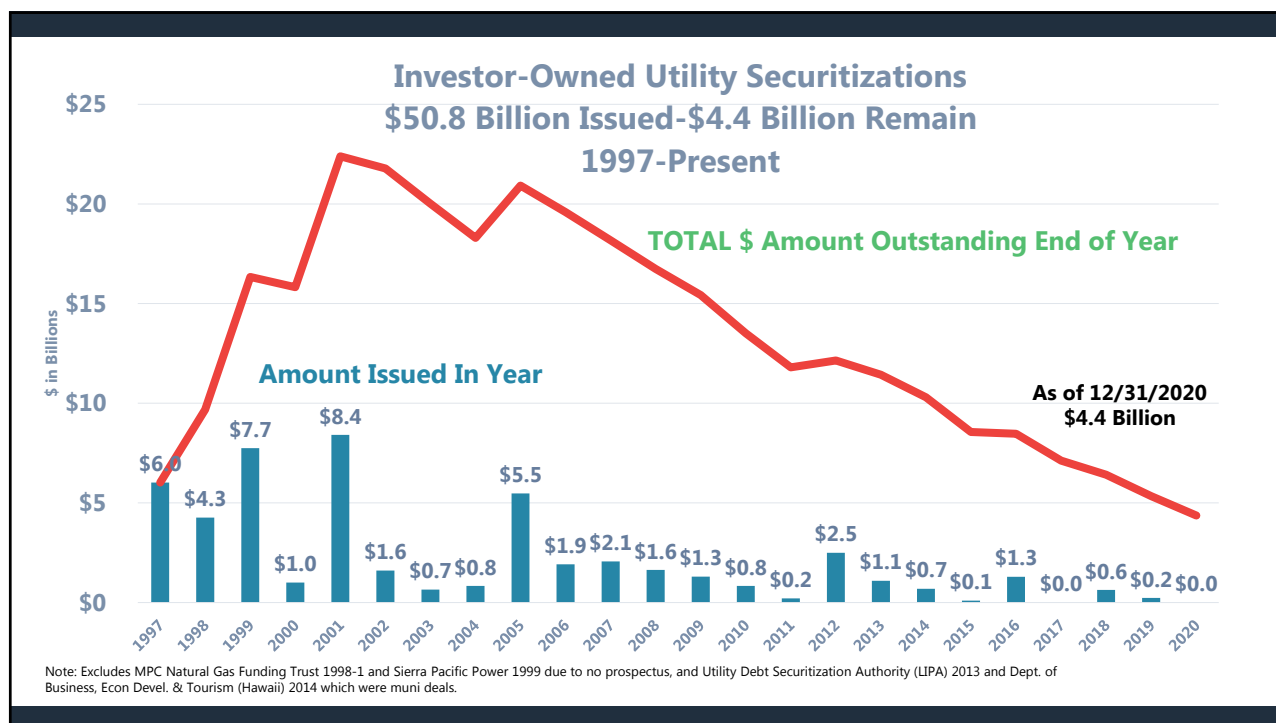
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**Some states
more active
than others**

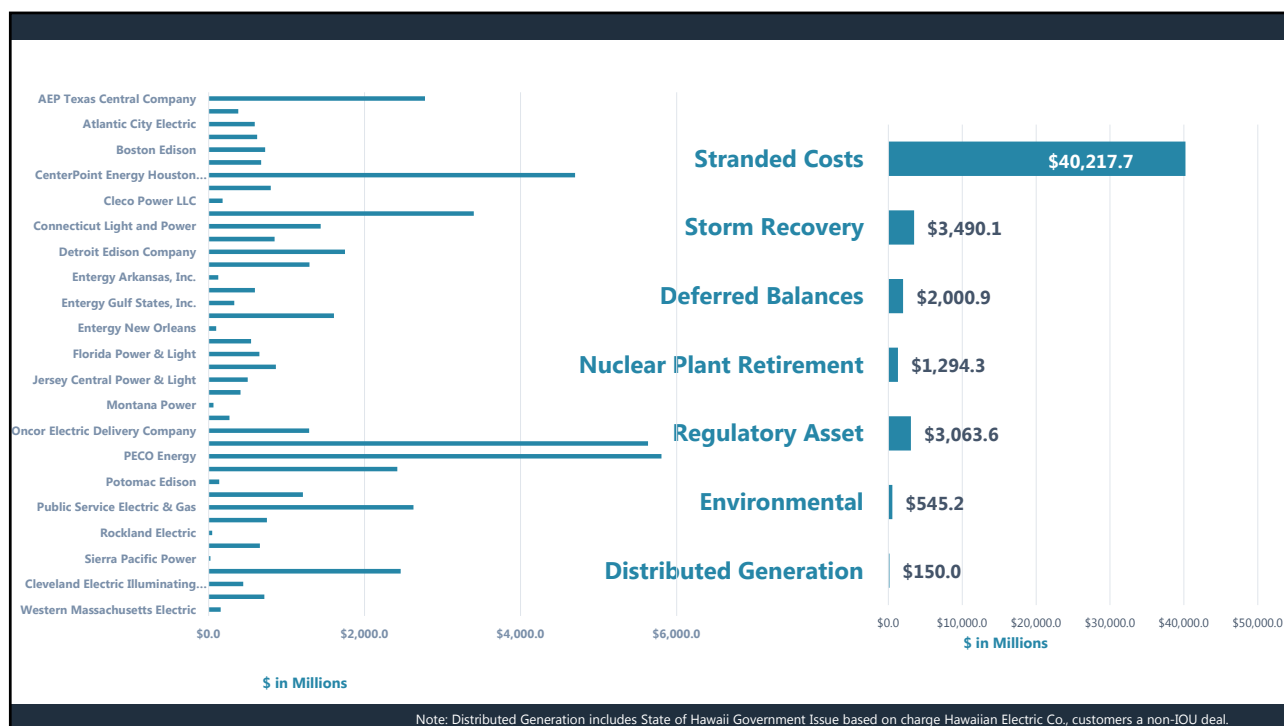
**66 Investor-
Owned
Utility
Transactions**



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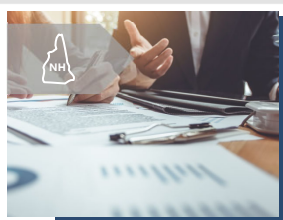
Eight Primary Uses Over Time 1997 – Present Only After Costs Determined Prudent and Recoverable



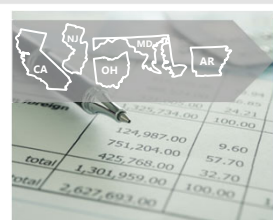
1. 1997 Rate reduction to facilitate deregulation of energy market



2. 1998-2007 Recovery of stranded costs resulting from electric industry deregulation



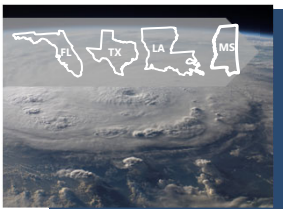
3. 2000 Buydown of above market power purchase agreements



4. 2001-2006 Deferred balances and regulatory assets



5. 2004 -2007 Costs of new pollution control equipment



6. 2005 Storm recovery costs



7. 2013 Costs of new renewable distributed generation

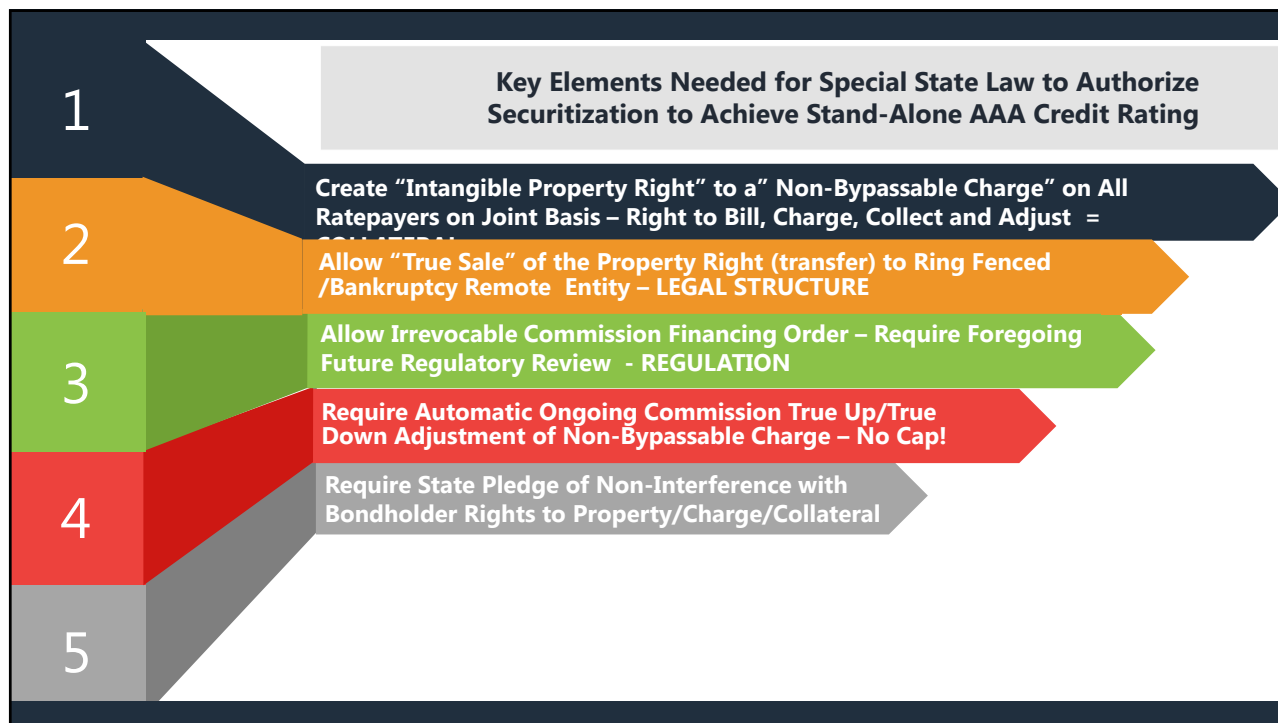


8. 2016 Remaining costs of early retired nuclear plant

10



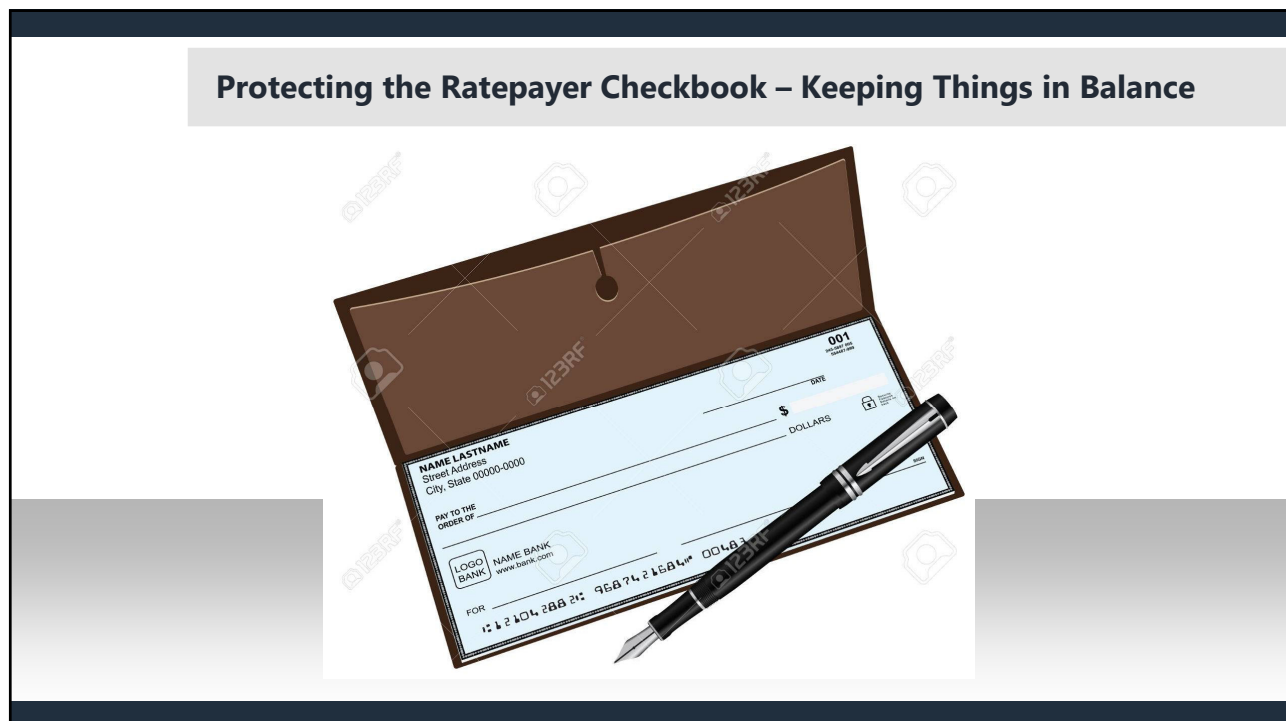
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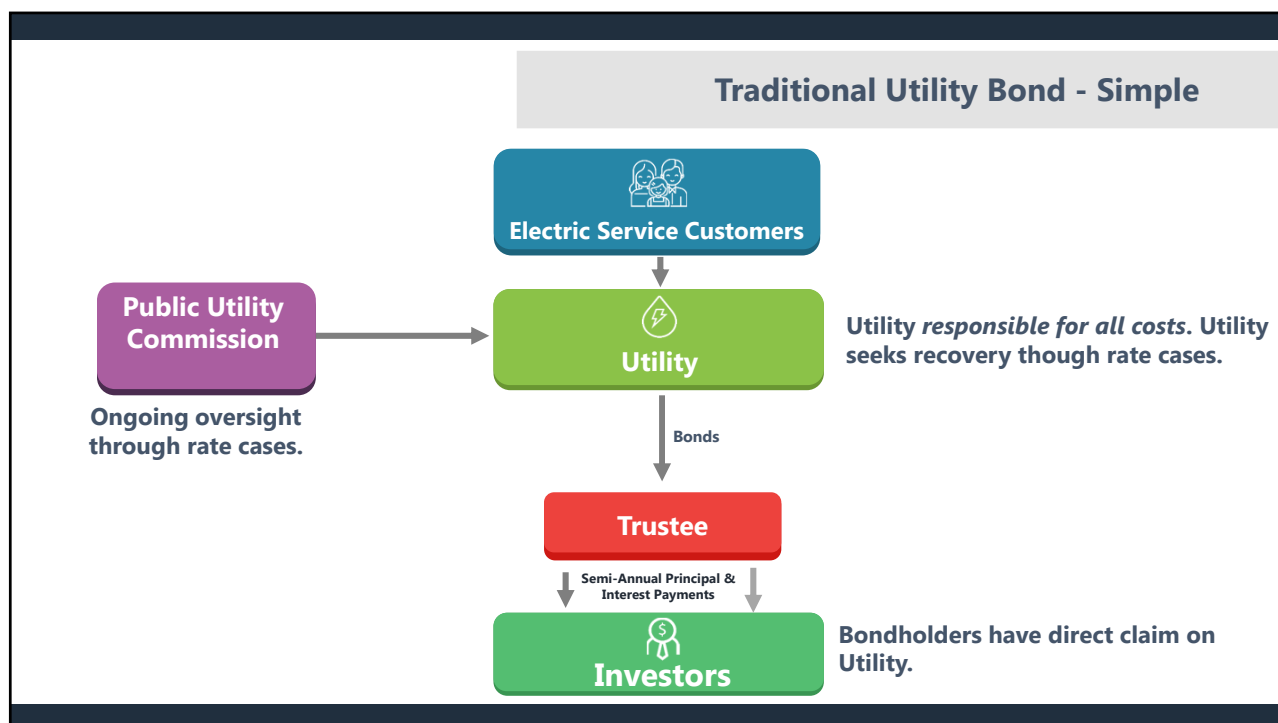
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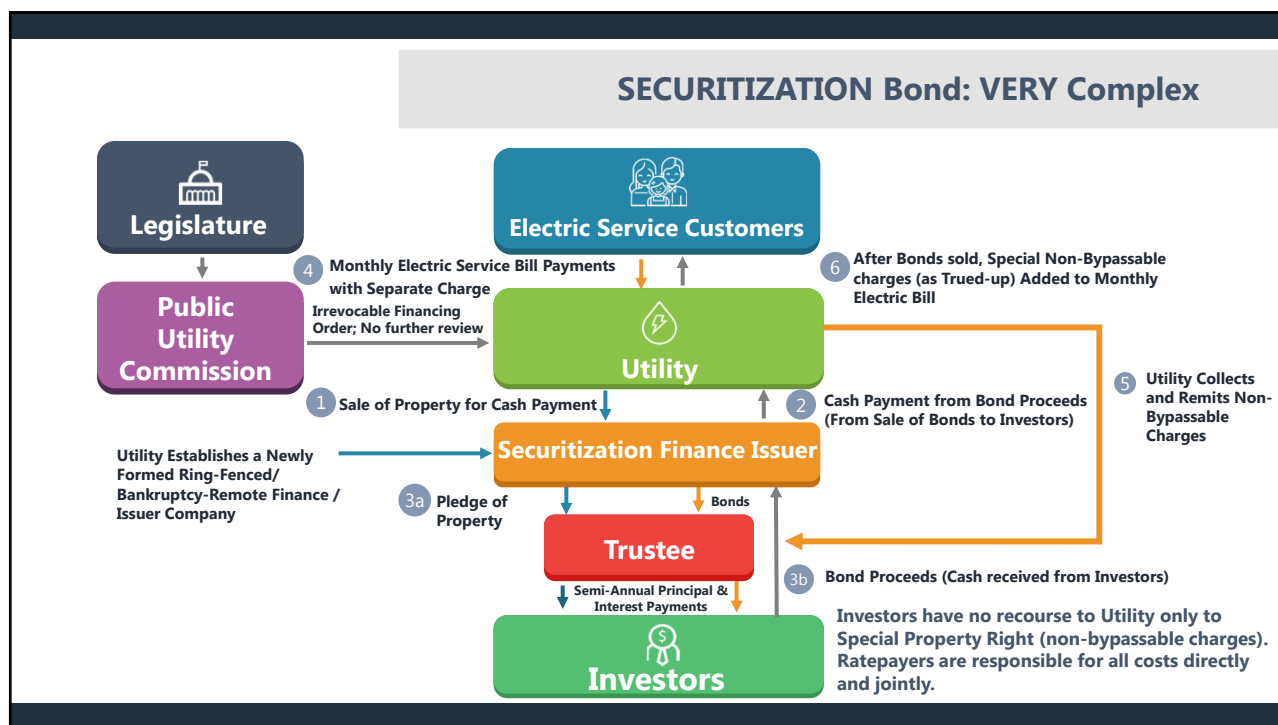
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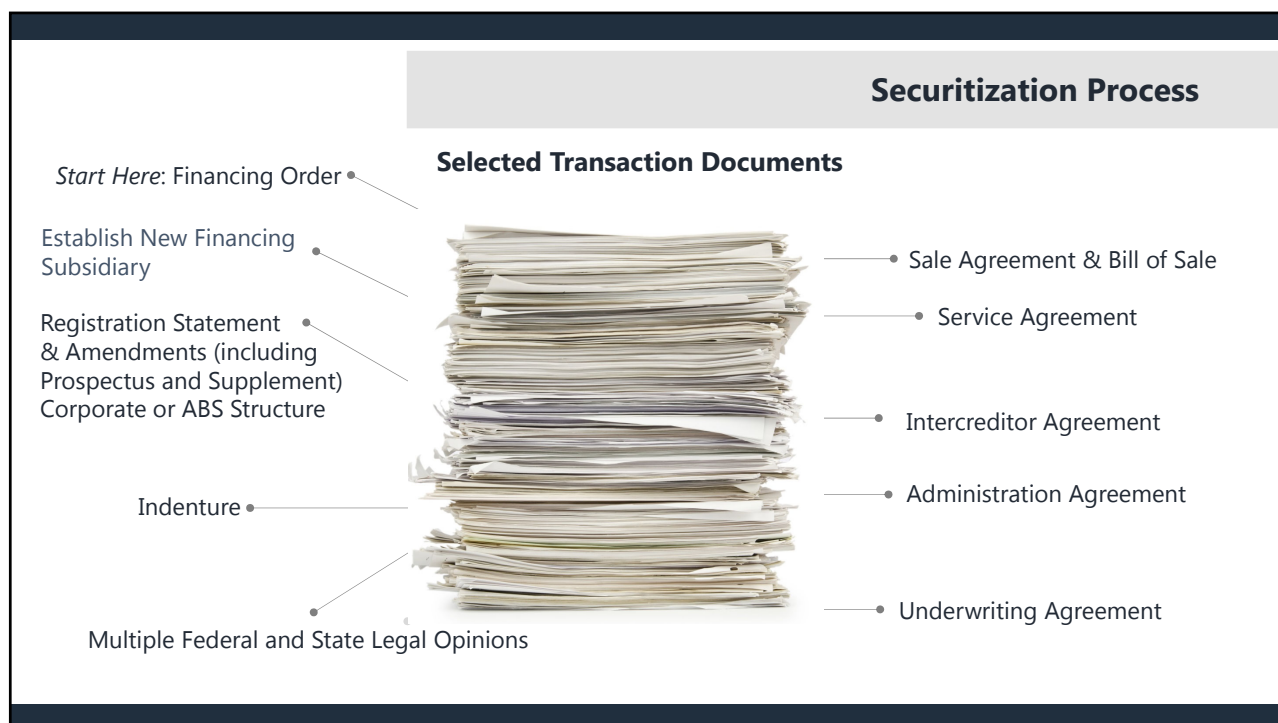
14



15



16



17



18

Traditional Utility Bond Negotiation Competing Economic Interests Balanced and Checked with Commission Ongoing Oversight



19

Each Party Acts in Its Own Economic Interest and Competing Economic Interests Are Balanced and Checked.



20

Bankers/Underwriters Have No Duty to Act in Ratepayers' Best Interests ... Fully Disclosed.



"The primary role of Goldman Sachs, as an underwriter, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the Issuer and **Goldman Sachs will act in its own interest and has financial and other interests that differ from** those of the Issuer."¹

¹ See Public Service of New Hampshire d/b/a Eversource Energy Docket No. DE 17-096 Securitization Petition Attachment RR 1-013 Page 2

21

Bankers/Underwriters Have No Duty to Ratepayers nor to Utility nor to Commission

Excerpt from Securitization Bond "Underwriting Agreement" Underwriters Required of an Issuer



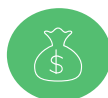
Section Entitled: "Absence of Fiduciary Relationship"

- 1 [The utility] acknowledges and agrees that the Underwriters are acting solely in the capacity of an **arm's length contractual counterparty to the [utility]** with respect to the offering of the Bonds ... **(including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, (the utility) ...**
- 2 [The utility will] consult with their own advisors concerning such matters and **shall be responsible for making their own independent investigation and appraisal of the transactions contemplated**, and the Underwriters shall have **no responsibility** or liability to [the utility] with respect thereto.
- 3 **Any review by the Underwriters ... of the structure and terms of the transactions ... will be performed solely for the benefit of the Underwriters and shall not be on behalf of [the utility]"**

*See the language quoted above in AEP Texas securitization transaction 2012
https://www.sec.gov/Archives/edgar/data/18734/000090514812000765/efc12-292_ex11.htm

22

Challenges in Structuring, Marketing & Pricing of Utility Securitization: Checks and Balances to Address Pricing Issues



Wide variances in total interest costs to ratepayers.



Wide variances in transaction costs and utility efforts to achieve "lowest cost" versus only "lower costs."



Credit spreads vary dramatically.

- U.S. Agencies + Sovereigns
- Mortgage-Backed Securities
- Pure Corporates + Utilities



Not all AAA's price alike. Debate with underwriters over "relative value" of competing investments with higher yield/costs affects ratepayers long-term.

23

The KEY Issue for Regulators with Securitization



FIDUCIARY DUTY:

Who protects ratepayers from paying too much since the utility is not responsible for any costs and regulator must give up ongoing review?

In securitization, every dollar is a ratepayer dollar.

How negotiated capital markets bond deals work...



24

What is Different with Securitization Bond?

Economic and Competing Interests Are Not Balanced and Not Checked.

Utility/Issuer

While still concerned about customers, Utility is not responsible for any bond costs – economic interest is to get the bond proceeds (money) as soon as possible.

Investors

Seek highest return/rates for lending their capital even at top quality AAA rate – not all AAA bonds are priced alike.

Ratepayers responsible for ALL costs!

Underwriters

(middle person between issuer and investors) continue to seek highest rates for quickest sale while maintaining relationship with Utility for future business.

Commission

Must forego all POST ISSUANCE regulatory review over charge on bonds. Not permitted to adjust any other utility rates.

25

Core Best Practices



CUSTOMER BENEFIT

A clear and meaningful “lowest cost”/ **greatest present value savings to ratepayers** standard under market conditions at the time of pricing established.



AUTHORITY:

Commission authority to include additional terms and conditions in the financing order for the benefit of ratepayers and to protect the public interest in structuring, marketing and pricing.



REPRESENTATION:

Ratepayer representation and protection in all matters related to structure, marketing and pricing.



COMMISSION ACCESS TO INDEPENDENT EXPERTISE

Access to expert resources with a duty of loyalty solely to the Commission to complement staff to protect ratepayers’ interests and support a fiduciary duty to ratepayers.



WRITTEN CERTIFICATIONS

Utility, underwriters, advisors should certify with confirmation by the Commission that the lowest cost standard/ greatest present value savings has been achieved.

26

Best Practices in Implementing the Commission's Financing Order

Fiduciary Duty – Best Interests

Decisions Concerning the Structuring, Marketing and Pricing of Securitization Bonds Need to be Made by an Entity with a Fiduciary Duty – Duty of Care and Loyalty – to Consumers/Ratepayers

Utility Interests Not Aligned with Ratepayers

Utility and Consumer Interests Are Not Aligned so as to Approach Securitization as "Business as Usual"

Need for Expertise

Experience and Expertise in Securitization Recovery Bond Issuance is Lacking at the Commission for Evaluation of Capital Market Alternatives

Best Practices

20 Years of Precedents Support Best Practices for Rigorous Analysis, Commission Oversight as a Joint Decision Maker Supported by an Independent, Experienced Financial Advisor

27

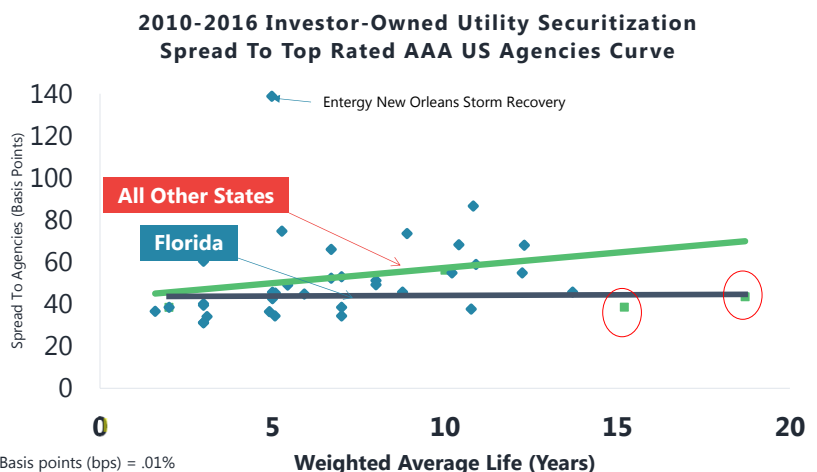
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Best Practice Example: Florida (Duke Energy Florida (DEF)) Ratepayer Savings From an **Active** Commission Vs. Other States 2010-2016

2016 Florida Public Service Commission Actions

- Established **Lowest Cost Objective in Financing Order**.
- Created **Bond Team – Commission and Utility**.
- Sold \$500+ million LONG Duration 15-20 years .
- Largest offering with longest maturity of its kind to date.
- Offering was in untested long-term (>15 years) market.
- Long maturities are most expensive to ratepayers.



28

Slide 28

LC14 JOE- NEED HELP ON THIS ONE.

Laura Cheshire, 11/8/2020

Besides Lowest Cost Pricing, Emerging Utility Securitization Issues



Should securitization debt be a permanent part of a utility's ongoing capital structure or "one-off"? If permanent, create smaller balance sheet? Create safer credit?

How much securitization is too much?

Always used voluntarily, at option of utility or can it be mandated?"