Securitization: Is it the Right Tool for Me Today?
SECURITIZATION: 21 STATES + DC + PUERTO RICO
Experience or Some Form of Legislation (Most Expired)
TOTAL ~$50.9 BILLION ISSUED
64 Investor-owned Utility Transactions
From (small) $21.5 Million to (large) $2.9 Billion In Size

Deregulation
PG&E Bankruptcy Exit
Financial Crisis
### 1997-2018 Securitization Issues by State:

**Texas, California & Pennsylvania Dominate**

<table>
<thead>
<tr>
<th>State</th>
<th>Total Issues</th>
<th>Total Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TX</td>
<td>12</td>
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<tr>
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ESSENTIAL SECURITIZATION STEPS

✓ Special Authorizing State Legislation
  ▪ Needs to be Empowering Commission Not Restricting It
  ▪ Lowest Cost Standard

✓ Non-Bypassable Charge on All Consumers - “Joint Customer Obligation”

✓ Irrevocable Charge Adjustment Mechanism (Tue-Up)

✓ Irrevocable Commission Financing Order
  ✓ Transferable Property Right
  ✓ Binding on Future Commissions – Forego Future Review
  ✓ State Pledge of Not to Interfere in Bondholder’s Right to Charge

✓ Commission + Utility Collaboration on Structure, Marketing + Pricing Bonds
  ✓ Banker/Underwriter Interests versus Customer/Ratepayer Interests
  ✓ Commission Represents Customers “At the Negotiating Table”
**COMPLEX TRANSACTION - UGH**

1. **Public Utility Commission**
   - Irrevocable Financing Order
     - Electric Service Bill Payments
     - Sale of Property
     - Pledge of Property

2. **Utility**
   - (Serves as Sponsor of deal, Seller of the Property and Servicer of the Bonds)
   - Added to Electric Bill

3a. **Issuer**
   - Limited Purpose Entity ("SPE")
   - Special Bond Proceeds
   - Buys the Property from Utility

3b. Bond Proceeds
   - Principal & Interest Payments

4. **Electric Service Customers**
   - Special Charges (as Trued-Up)

5. **Newly Formed Ring-fenced/Bankruptcy-Remote Company**

6. **Utility Charges**
BUT LARGE CUSTOMER/RATEPAYER SAVINGS – YES!

TARGETED USES – 2007 & 2016

- $459 Million Environmental Upgrades to Coal Plant
- $130 Million Net Present Value (NPV) Savings
- $1.294 billion Early Retirement Nuclear Plant
- Average Rate: 2.72%
- $680 Million NPV Savings

West Virginia 2007

Florida 2016
WHERE DO SAVINGS COME FROM?
Customer Savings In Revenue Requirements $ 1 Billion 25 Year Maturity (1)

Level Revenue Requirements Over 25 years...
Lower Interest Expense 2%
Eliminate Equity Costs 55%
No Income Taxes On Required Revenues 33%
Lower Revenue Based Fees 1%

(1) Savings net of issuance costs. 15 Year Weighted Average Life
New Mexico legislative Majority Leader discussing securitization as proposed by utility – identifies need for regulator oversight... Feb ‘18
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NARUC – 2018
Securitization Commission Perspective

REBECCA KLEIN
FORMER CHAIRMAN, PUBLIC UTILITY COMMISSION OF TEXAS (PUCT)
KLEIN ENERGY, LLC
“The commission shall ensure that securitization provides tangible and quantifiable benefits to ratepayers...”

“The commission shall ensure that the structuring and pricing of the transition bonds result in the lowest transition bond charges consistent with market conditions and the terms of the financing order.”
Texas Ratepayer Savings from an ACTIVE Commission vs. Other STATES

2001-2005 New Issue Pricings of Bond Offerings

Differences = Coupon in % Basis Points vs Benchmark By Bond Maturity

Note: (1) Excludes WALs less than 2 years since they were priced off of a different benchmark. Sources: Bloomberg and SEC Prospectuses
Active Commission Involvement Essential

- The Importance of a Financial Advisor
- The Commission’s Relationship with a Financial Advisor
- Expectations for a Financial Advisor’s Role
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Please complete the session survey in the meeting app

Session B3

Look under the “polls” button