Securitization research

- What is Securitization?
  - Securitization is a process by which an entity issues bonds that are backed by some financial asset such as loan, credit card, or other receivables as collateral. A pool of assets are created and transferred to a trust, which gives bond-buyers assurance they have a claim on the assets and will be repaid. In this way, the asset is separated and is protected from any credit problems of the issuing entity (utility).[1]

- When do Securitization bonds mature?
  - Usually securitization bonds have multiple maturities such as 3, 5, 10, or 15 years, known as "tranches" of a series.[2]

- When do utilities use securitization?
  - Utilities use securitization to cover large, unexpected, or emergency costs such as wildfire or hurricane damage.[3] More recently it has been used to allow utilities to recover the large stranded asset costs from early retired power plants.[4,5]

- How does a utility securitization program work?
  - "A typical utility tariff securitization program is simple and straightforward. It 1) puts a charge on the electric bill of substantially all consumers in a utility's service territory, 2) collects the charge and turns it over to a special purpose, bankruptcy-remote subsidiary of a fully regulated sponsoring utility to pay principal and interest on the bonds, and 3) guarantees that the government will raise the charge whenever it is anticipated that collections may be insufficient to pay principal and interest on time. That's it."[6]

- How does securitization create savings?
  - Securitization creates savings in two ways[7]:
    - Allows utility to finance at nearly 100% debt (rather than a mix of debt and equity) without impairing capital structure. Cost of debt is much lower than cost of equity, and the utility avoids income taxes on equity returns.

---

[1] Direct Testimony of Paul Sutherland, Florida PSC, Docket No. 150171-EI, September 4, 2015
[2] Ibid
[3] https://saberpartners.com/press/the-bond-buyer-19/

[4] https://saberpartners.com/press/the-bond-buyer-19/

[5] https://www.greentechmedia.com/articles/read/securitization-the-tool-utilities-need-to-avoid-being-swamped-by-the-coal-closure-wave

[6] https://saberpartners.com/op-ed/a-rising-tide-do-utility-securitizations-have-a-future/

[7] https://saberpartners.com/wp-content/uploads/2017/03/fichera_securitization_testimony3_31_06.pdf, pg. 10, line 19 – pg. 11, line 14.

        - Low risk of ratepayer-backed bonds leads to higher credit ratings, which leads to lower interest rates.

- Has utility securitization ever been used in Oklahoma?
    - No, and it is likely that legislation would be required to make it possible.[8]

- What are the Pros and Cons of utility securitization for Oklahoma?
    - Pros:
        - Minimizes carrying costs of the large debt incurred during the Feb 2021 cold weather event
        - Can lead to AAA bond ratings, "lowest possible consumer cost in the 3-4 percent range"[9]
        - Keeps rates lower in the short term
    - Cons:
        - Would likely require legislation
        - Securitization financing orders are irrevocable. This guarantee is what allows bonds to reach high credit ratings, but it also means that ratepayer charges cannot be reconsidered at a later date. Securitization should only be used for well-established known and measurable costs.
        - Ratepayers (not the utility) are wholly responsible for securitized costs. Legislation and Commission Orders should pay special attention to consumer protection.

[8] https://energyinnovation.org/wp-content/uploads/2020/09/Securitization-Brief_September-2020.pdf
[9] https://energyinnovation.org/wp-content/uploads/2020/09/Securitization-Brief_September-2020.pdf, pg. 3