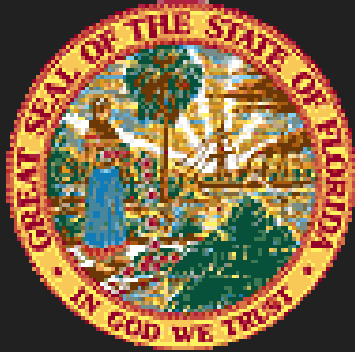




Getting Ahead of the Curve: Reducing Utility Rate Hikes Caused by COVID-19

Mark Cicchetti

Bureau Chief, Finance, Tax, and Cost Recovery
Florida Public Service Commission



Florida Utility Securitizations

- 2007 -- Storm Recovery Costs – Hurricane Related
 - \$652 Million, 12-year Amortization
- 2016 -- Nuclear Asset-Recovery Retirement Costs - Nuclear plant irreparably damaged during maintenance
 - \$1.249 Billion, 20-year Amortization

Other Reasons for Utility Securitizations

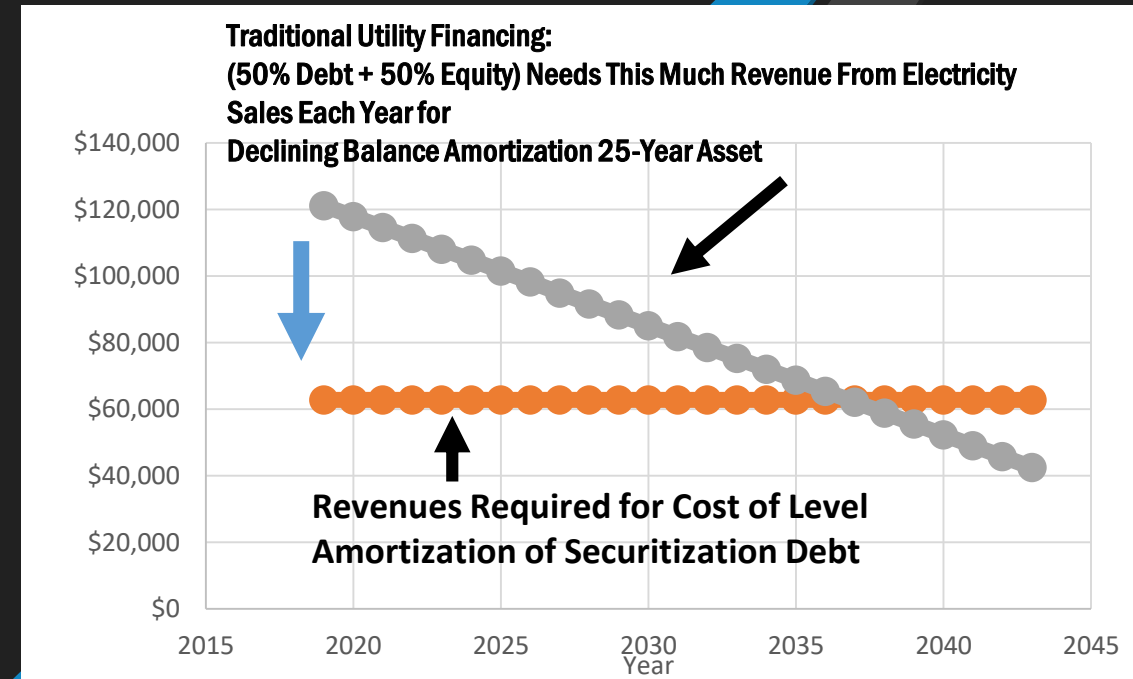
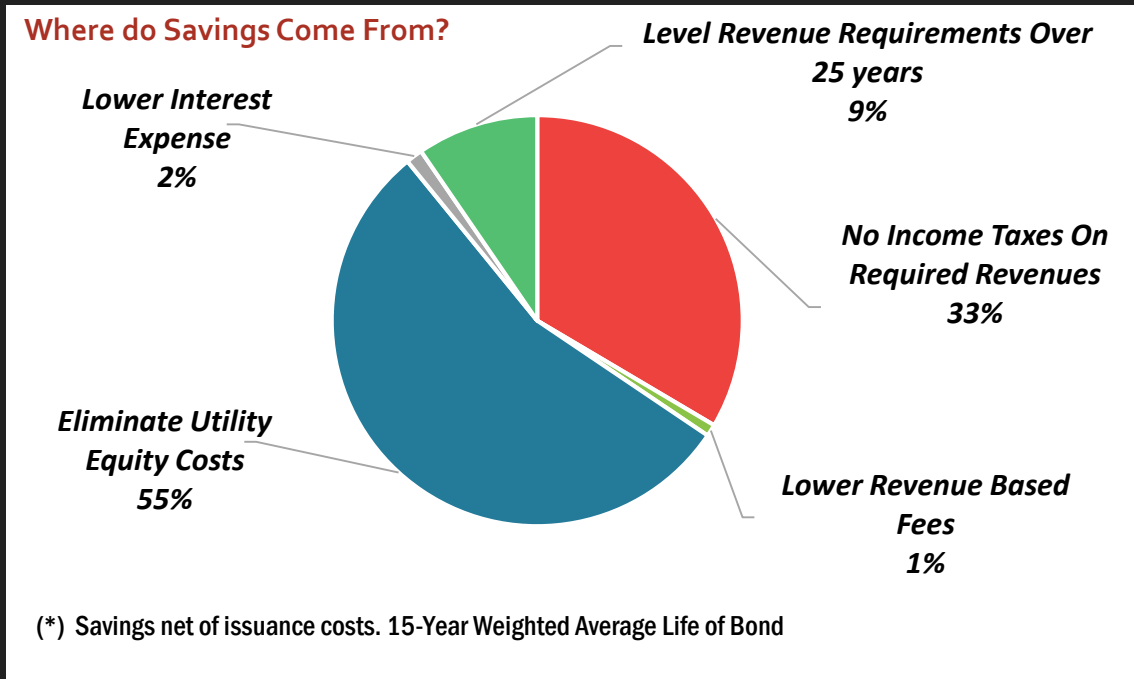
- Industry Restructuring - Stranded Costs
- Environmental Compliance
- Plant Retirement Costs
- Wildfire - Pending
- State Budget Crisis
- Conservation
- Transition Assistance for Communities and Workers

Non-Utility Securitizations – Similar But *Fundamentally* Different

- Mortgages
- Car Loans
- Credit Cards

Utility Securitization in a Nutshell

- Regulatory Asset Carrying Charge
 - Replace Utility's Overall Pre-Tax Cost of Capital With AAA Bond Rate
 - Level amortization versus declining balance



How Does a Securitization Achieve a AAA Rating? Usually Through New legislation....

1

Create "Intangible Property Right" to a "Non-Bypassable Charge" on All Ratepayers on Joint Basis – Right to Bill, Charge, Collect and Adjust

2

Allow "True Sale" of the Property Right (transfer) to Ring Fenced /Bankruptcy Remote Entity

3

Allow Irrevocable Commission Financing Order – Give up Future Regulatory Review of Charge

4

Require Automatic Ongoing Commission True Up/True Down Adjustment of Non-Bypassable Charge – With No Cap!

5

Require State Pledge of Non-Interference with Bondholder Rights to Property/Charge

How Does a Securitization Achieve a AAA Rating?

1. Authorizing Legislation

2. Irrevocable Financing Order

- Isolate and protect dedicated revenue stream
- Remove legislators and regulators ability to affect the dedicated revenue stream post issuance - called the "State Pledge"
- 366.95 (11)(b) Florida Statutes - State Pledge - The state pledges to and agrees with bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the state will not: 1. Alter the provisions of this section which make the nuclear asset-recovery charges imposed by a financing order irrevocable, binding, and non-bypassable charges; 2. Take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or 3. Except as authorized under this section, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the bondholders and other financing parties until any and all principal, interest, premium, financing costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related nuclear asset-recovery bonds have been paid and performed in full.

How Does a Securitization Achieve a AAA Rating?

- Create Ring-Fenced Special Purpose Entity (SPE) to Sell Bonds – Lawyers!!
- SPE owns right to charge, bill, collect and adjust nonbypassable dedicated revenue stream transferred from the utility; utility acts as bond servicer
- Create True-Up Provision –
 - SPE can require Regulator to adjust asset-recovery charge up or down monthly, if necessary, but at least semi-annually, to guarantee enough money to pay semi-annual principal, interest, and associated costs on time.
 - Based on Kwh sales.
 - Commission's authority is limited to reviewing for accuracy.

Safer than Treasury Securities?

- What could cause non-payment for utility with expansive service territory?
 - Nuclear War?
 - Asteroid?
 - Pandemic?
- Investors should accept very low rate for the safety of utility securitization bonds
- Successful transaction is measured by minimizing the difference between US Treasury rate compared to rate on other comparable AAA securities – the credit spread

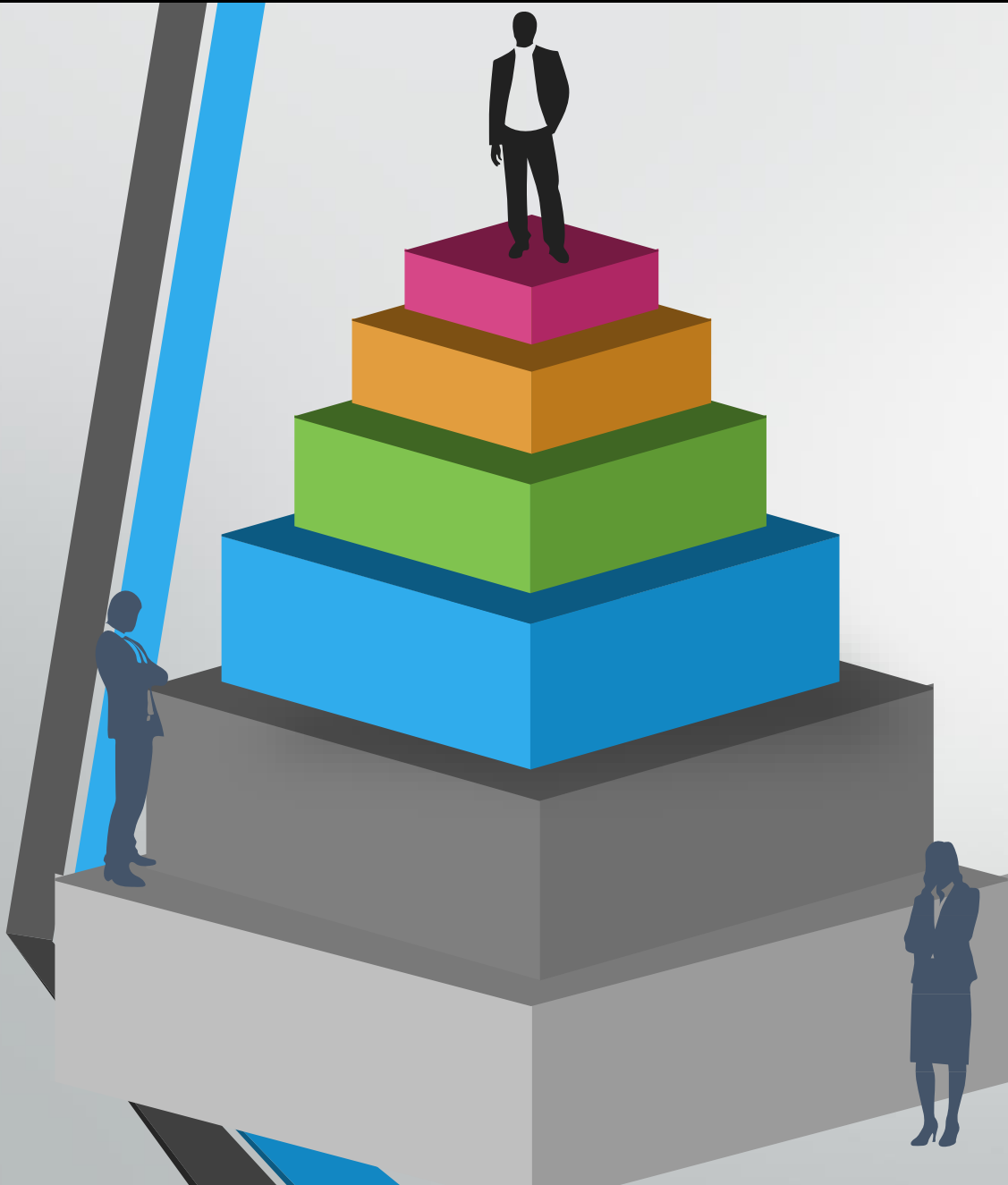
Regulatory Concerns / **Best Practices** Needed

- Because legislation requires customers to pay and charge to be continually adjusted to pay bondholders, it is not similar to usual utility bond issuances
- Commission needs knowledgeable, experienced financial advisor to protect customers interests because the utility does not have the normal incentives to minimize financing costs
- Least Cost - Generally, do not want the securitization to be more expensive than alternatives, should be a means of lowering carrying costs (financing charges)
- Be aware of intergenerational issues

Five Utility Securitization Best Practices for Commissions to Protect Ratepayers

1. Commission must have authority to include any terms and conditions in its financing order for the benefit of ratepayers and to protect the public interest in structuring, marketing and pricing.
2. Require a clear and meaningful “lowest cost to ratepayers” standard under market conditions at the time of pricing.
3. Enable Active Commission Oversight: Commission must have access to expert resources with a duty of loyalty solely to the Commission to complement staff e.g., financial advisor and outside legal counsel to protect ratepayers’ interests and support a fiduciary duty to ratepayers.

No Commission Budget Impact. Commission experts should be a transaction cost identical to the treatment of the utility advisors, counsel and underwriters.
4. Require Certifications of Lowest Cost from Utility, Underwriter, Advisor.
5. Permit a 120-day post-issuance Commission review and audit of financing costs with any adjustments necessary.





Mark Cicchetti

President, SURFA

Bureau Chief

Finance, Tax, and Cost Recovery
Florida Public Service Commission

850-413-6066

mark.cicchetti@psc.state.fl.us