SECURITIZATION AND THE COLORADO ENERGY POLICY LANDSCAPE

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LEGISLATIVE AIDE TO REP. CHRIS HANSEN (D-DENVER, CO - HD6)
U.S. NET GENERATION BY MARKET SHARE (1950-2018)

Source: U.S. Department of Energy, Energy Information Administration
COLORADO NET ELECTRICITY GENERATION BY SOURCE (MAY 2019)

- Natural Gas-Fired: 30%
- Coal-Fired: 41%
- Hydroelectric: 5%
- Nonhydroelectric Renewables: 24%

Source: U.S. Department of Energy, Energy Information Administration
Selected Historical Mean Unsubsidized LCOE Values

Source: Lazard estimates.

(1) Reflects the average of the high and low LCOE for each respective technology in each respective year. Percentages represent the total decrease in the average LCOE since Lazard’s LCOE—Version 3.9.
• Across 43 states, 558 coal-fired electric generating units (105,000 MW) have shut down or plan to shut down over the period 2010 – 2025, approximately 30% of the total installed base.*

• Coal plant closures are likely to accelerate, given the lower costs of alternative generation

• How can Colorado plan for this eventuality and reduce the impact of closures on affected Colorado workers and communities?

Sources: American Coalition for Clean Coal Electricity; Energy Information Administration
2019 LEGISLATIVE SESSION
POLITICAL LANDSCAPE

- Democratic control in both chambers & Gov’s office
- Largely a reintroduction of HB17-1339
- Rural vs. urban
- Utilities vs. ratepayers
- Fossil fuel stakeholders vs. environmental stakeholders
Set goals

- HB 1261: Climate Action Plan To Reduce Pollution
  - Reduce 2025 GHG emissions by 26%
  - Reduce 2030 GHG emissions by 50%
  - Reduce 2050 GHG emissions by 90%

Integrate goals into ERP Process

- SB 236: Sunset Public Utilities Commission

Provide tools to transition away from fossil fuels

- SB 181: Protect Public Welfare Oil And Gas Operations
  - HB 1314: Just Transition From Coal-based Electrical Energy Economy

Incentivize widespread adoption of renewables

- HB 1003: Community Solar Gardens Modernization Act
- SB 077: Electric Motor Vehicles Public Utility Services

SB 236: Sunset Public Utilities Commission
HB19-1037: Colorado Impact Assistance Act
- Permits Colorado IOUs to use securitization when and if a generation asset is no longer economical or is at the end of its useful life
- Directs 15% of the savings from securitization to assist workers and communities affected by the closure

HB19-1313: Electric Utility Plans To Further Reduce Carbon Dioxide Emissions
- Permits Colorado IOUs to submit clean energy plans to the PUC for approval
- IOU can rate-base work force transition assistance
- Utilities have a 50% ownership target for replacement capacity

SB19-236: Sunset Public Utilities Commission
- Reauthorization and modernization of the PUC
- Comprehensive utility/electricity sector omnibus bill

**SB19-236: THE “TURDUCKEN”**
WHAT SB19-236 DOES:

- PUC authority to implement clean energy goals & emissions reductions targets, see HB 1261
- Ensures retail “rate stability” with implementation of clean energy plans
- Authorizes the PUC to include Tri-State and other co-ops in their ERP jurisdiction (not rates)
- Integrates a wider range of resources into utility planning processes, with a focus on smaller distributed resources
Prompts an investigatory docket for RTO/EIM & grid interconnection

Requires utilities to account for the social cost of carbon in their electric resource planning ($46/ton)

Authorizes the PUC to issue financing orders for utilities to securitize to lower costs for customers when retiring generation assets

Authorizes the PUC to ensure ratepayer protections when utilities use ratepayer backed bonds

Consideration of workforce and community impacts in future resource planning
SAMPLE COAL POWER PLANT BOOK VALUE

Even though the original 1970 power plant construction costs have long since been paid off, subsequent improvements have not.

KEY QUESTION: should customers have to pay for ill-advised investments?

Source: Energy Democracy Initiative
This idea is not new – it was used during wholesale electric restructuring to finance “stranded costs” of some utilities.

How securitization is being used today:

• **Duke Energy (FL)** recently used securitization to finance $1.3 billion in assets of a closed nuclear plant in Florida. The interest rate is 2.72%, much lower than Duke’s rate of return. The deal saves customers $700 million over 20 years.

• **Consumers Energy (MI)** received approval from the PUC to sell $389.6 million in securitization bonds to capture the unrecovered net book value of 950 MW of coal-fired capacity retired in 2016.
24 States have statutes that permit securitization of utility assets
The Cost of a Power Plant

- Fuel, O&M: Goes away with closure
- Undepreciated Capital Costs: Remains after closure
How to finance the stranded costs

*Two choices:*

- Utility Financing
- Ratepayer Backed Bonds
Ratepayer-Backed bonds will produce substantial savings…
Ratepayer-Backed bonds will produce substantial savings...

Savings Categories
Lower interest rates
AND:
• Lower marginal cost of power
• Smaller replacement portfolio
• Lower fuel price risk
The savings can be used for several purposes

- Rate reductions for consumers
- Retraining for affected workers
- Property tax support for affected local gov’t
How Securitization Lowers Costs (Overview)

1. Costs for existing coal plants (including operation costs, depreciation, and utility profits) are high.
2. Refinancing depreciation and profits through securitization lowers costs, sometimes significantly.
3. Utility returns, however, the utility no longer has an asset on which to earn profits.

First Year Cost of Energy ($/MWh)

- Current Asset: $55/MWh
- Accelerated Depreciation: $68/MWh
- Securitization: $30/MWh

- Fuel and O&M
- Depreciation Expense
- Securitization
- Return On Investment

Source: Sierra Club
Electric utilities apply to the PUC for a financing order to issue ratepayer backed bonds to finance the retirement of an electric generating facility.

PUC holds a public hearing on a utility’s application for a financing order.

PUC has the authority to approve or deny the application, based on a number of factors.

Within 120 days of the issuance of bonds, the PUC will review the order and determine if the bonds resulted in the lowest overall costs.

PUC has the authority to attach conditions to financing orders to maximize the benefits and minimize the to customers, impacted workers and communities, and the utility.

PUC oversees the process used to structure, market, and price the bonds.
- Xcel Energy customers could save $467 million (NPV) from securitizing the remaining costs of each coal asset upon replacement.
  *in addition to the operating and incremental capital cost savings of $187 million for a solar replacement option and $360 million for a wind replacement option*

- Retiring all 10 of Colorado’s coal plants not scheduled to close before 2025 would save customers $1.4 billion if replaced with solar and $1.7 billion if replaced with wind.

Source: Strategen Consulting - Colorado Coal Plant Valuation Study
LESSONS LEARNED

- Framing is important
  - Securitization is not partisan, and not anti-coal, it is just math
- Balance is necessary
  - Securitization does not excuse utilities from losses for their coal investments, however it also does not demand that utilities and their financial backers take on the full cost
- No one should be left behind
  - Utilities must include workforce transition financing plans when filing any plant closure proposal to ensure local communities are supported
- Broad, inclusive, multi-year stakeholder engagement is a must
  - Large financial transactions like this affect many people in many different ways
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