



# Utility Securitization: Financing Methods in Uncertain Markets to Lower Ratepayer Costs

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# Saber Financial Advisor Securitization Assignments



Wisconsin



West Virginia



Florida



Texas



New Jersey



Vermont

## Why does Securitization matter?

- **Public interest solution to slowing the rise in energy rates and disruption in capital markets**
  - Benefits consumers and utilities
- **Mitigates long-term rate impact of investment decisions and government mandated costs and rising cost of capital**
  - Least cost alternative in global capital markets.
- **Creates economic value in capital markets from Commission's powerful regulatory authority – ratepayer/government supported debt through regulatory financing orders**

## Different Names; Same Technology

### Also known as....

- Rate Reduction Bonds
- Stranded Cost Bonds
- Utility Fee Bonds
- Energy Recovery Bonds
- Environmental Trust Bonds
- Storm Recovery Bonds

# What is Securitization?

It is **not**...

- ***Not* a bond by the Utility**
  - Non-recourse to utility, its shareholders and creditors, completely independent corporate bond
- ***Not* a Municipal Bond**
  - Not a charge against the state's taxing or budget authority
- ***Not* an Asset Backed Security**
  - No pool of receivables, financial assets or other complexities

## What is Securitization?

It is:

- Direct borrowing on rate base – “ratepayer-backed” bond
- Guaranteed by State’s regulatory authority over rates – an R.O. (regulatory obligation) not G.O. (general obligation)
- AAA rated, top quality
- Lowest cost way to raise investment funds in debt capital markets today

## What Makes a Successful Securitization

- **Specific state statutory authorization (Generally) which includes a “State Pledge” of non-impairment (Always)**
- **Irrevocable financing order which includes an automatic adjustment mechanism (true-up/true-down)**
- **Active Commission oversight of, and involvement in, financing process**

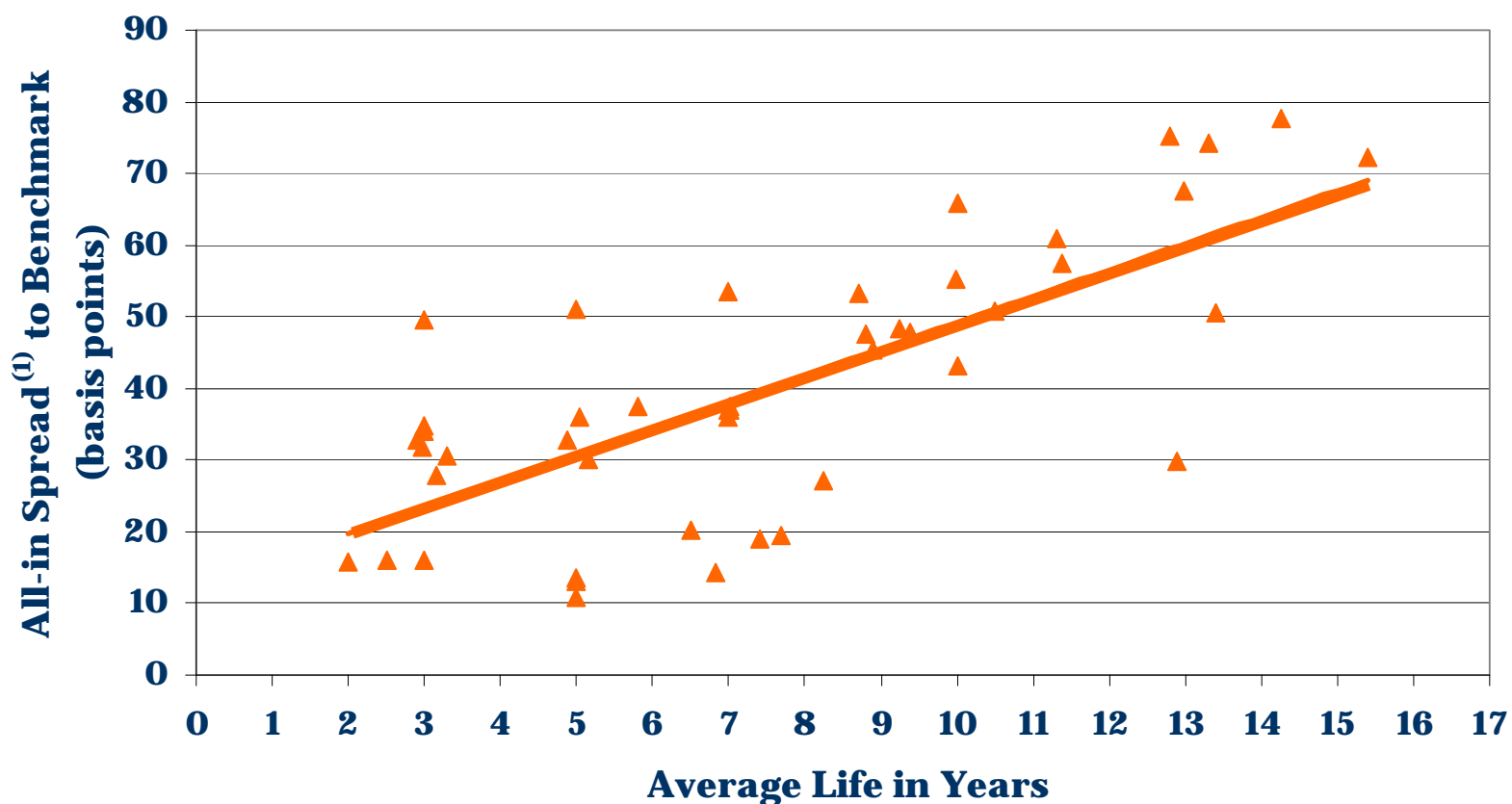
## Any Credit Risk Effectively Eliminated

**“The broad-based nature of the true-up mechanism and the State Pledge will serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the Bonds.”**

**Source: SEC Prospectus: Allegheny Energy Environmental Bond Prospectus**

# Difference Active PUC Makes in Pricing

Securitization Pricings  
Non-Activist PUC Deals Since 2001

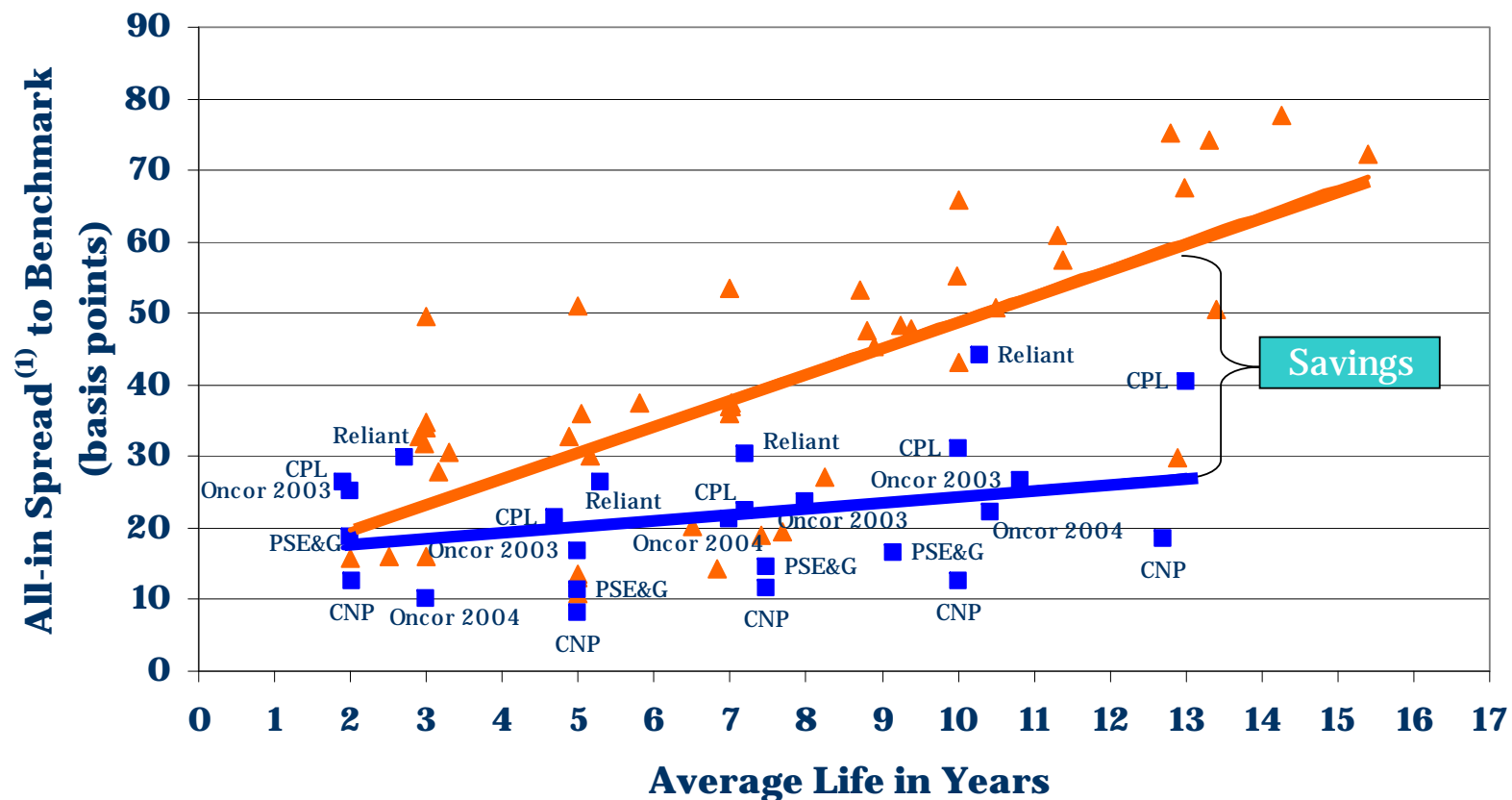


Source: SEC Prospectus, Bloomberg. (1) All-in spread includes credit spread, underwriting and structuring fees, if any.

# Difference Active PUC Makes in Pricing

Passive —  
 Activist PUC with FA —

## Ratepayer Savings from Pricing Activist PUC Deals vs. All Others Since 2001



Source: SEC Prospectus, Bloomberg. (1) All-in spread includes credit spread, underwriting and structuring fees, if any.

## Going Forward: Policy Questions/Steps for a “New” Financial Tool

- Step One:  
**Where can securitization be used? (utility infrastructure, government mandated costs) Commissions can be proactive.**
- Step Two:  
**How can the transaction costs be minimized? Programmatic approaches, closer cooperation between Commission and utility.**
- Step Three:  
**How can the benefits to ratepayers be maximized and extended? Achieve lowest financing costs and potential positive balance sheet effect resulting in lower WACC for the utility**