HOUSE RESEARCH ORGANIZATION bill analysis | 5/22/2005 | SB 1495 Fraser, Jackson (P. King)

SUBJECT:	Allowing securitization financing by electric utilities for certain purposes
COMMITTEE:	Regulated Industries — favorable, without amendment
VOTE:	7 ayes — P. King, Hunter, Baxter, R. Cook, Crabb, Hartnett, Turner 0 nays
SENATE VOTE:	On final passage, April 14 — 31-0, on Local and Uncontested Calendar
WITNESSES:	For — Rina Hartline, Centerpoint Energy, AECT Against — None On — Phillip Oldham, Texas Coalition for Competitive Electricity

BACKGROUND:

In 1999, the 76th Legislature enacted SB 7 by Sibley. Among its provisions, the bill allowed a utility to securitize up to 100 percent of its regulatory assets and up to 75 percent of its estimated stranded costs.

Securitization allows utilities to sell their debt to a third party. The utility receives a lump-sum payment, equaling the amount of debt sold, from investors. Investors then issue securities. Utility customers pay the principal and interest payment on the securitized debt instead of paying the cost on their electric bills over time. This mechanism allows debt to be refinanced at potentially lower rates, cutting the total cost of debt.

DIGEST:

SB 1495 would encourage electric utilities to use securitization financing to recover regulatory assets, amounts determined under a true-up proceeding, and any amounts recovered under a competition transition charge. The bill would state that it was the policy of the state to encourage electric utilities to use securitization financing because this type of debt would lower the carrying costs of assets, as compared to conventional utility financing methods.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2005.

SUPPORTERS SAY:

SB 1495 would benefit consumers by allowing a utility to securitize all costs deemed recoverable under a PUC true-up proceeding. Under current law, only charges stemming from stranded costs and regulatory assets may be securitized. The bill would allow other costs related to the transition to competition, such as a utility's final fuel balance and capacity auction fees, to be securitized as well.

Through securitization, a utility can lock in its costs and sell that debt at a low rate of interest to other investors in the same way that homeowners refinance their mortgages. Thus, instead of the 10 percent or 11 percent interest rate that likely would accompany costs that were financed through a utility's cost of capital, securitization would yield a lower interest rate of 4 percent to 5 percent on those costs. Consumers would see the benefit of securitization through lower utility rates.

OPPONENTS SAY:

Utilities should not be able to securitize additional transition costs. Once securitized bonds are issued, they are irrevocable. Utilities will have recovered those costs up front, rather than over time. Adjusting these costs could be difficult if it was determined upon appeal that the estimates were inaccurate.

NOTES:

HB 1777 by P. King, which contains similar provisions regarding securitization of amounts determined in a true-up proceeding, passed the House on May 4 and has been referred to the Senate Business and Commerce Committee. SB 408 by P. King, the PUC sunset bill, which contains provisions concerning securitization similar to those in SB 1495, is on today's Major State Calendar.