

SF 999/HF XXX

Natural disasters, including extreme weather events, and other extraordinary events can lead to **sharp increases** in Minnesotans' monthly natural gas bills.



Securitization is a financial tool that allows utilities to recover large costs related to extraordinary events by using prime-rated bonds.

- Results in lower costs to finance the recovery
- Customers therefore save on bills
- The taxpayer isn't stuck holding the bag
- Oversight and approval by the PUC to ensure this tool is only used when it benefits customers
- Over 30 states offer securitization



How this saves money:

- Extreme weather events and unforeseen asset replacements can cost hundreds of millions of dollars
- Securitization bonds are usually 1-3% lower than current lending rates
- \$100M financed with 2% lower interest rate would save \$12M on a 10-year loan
- Customers benefit due to lower costs for recovery

Legislation may protect Minnesota natural gas utility customers against potential future “bill shock” from unforeseen extraordinary costs, such as from a severe weather event or other unforeseen disasters.

Potential legislation could allow natural gas utilities the option to use a proven financial tool (securitization) to recover these extraordinary costs and limit the bill impact on customers by accessing low-cost, long-term financing through the issuance of prime rated bonds, with customers benefitting due to lower costs for recovery.

This legislation would be a “win-win-win” for Minnesota – helping customers with their bills and allowing utilities to recover necessary costs while maintaining public accountability with regulatory oversight.

The Need

Minnesota should create an additional tool to protect utility customers against “bill shock” in case of a future disaster or other situations that result in extraordinary, unavoidable costs.

The Solution

Legislation may allow a Minnesota regulated natural gas utility the option to use a proven financial tool (securitization) to recover costs and limit the customer bill impact through the issuance of low-cost, long-term bonds.

Utility securitization is currently allowed in more than 30 states. It is an established practice that has been used by utilities to save customers millions of dollars through obtaining financing on favorable terms to address special costs such as storm damage, unforeseen disasters, and early retirement of obsolete facilities.

Allowing the use of this important tool will help protect Minnesota natural gas customers in the event it is ever needed.

How It Could Work

A utility may petition the PUC for authorization to issue long-term bonds to recover extraordinary costs prudently incurred.

After stakeholder input and review for public accountability, the PUC determines whether securitization is reasonable and will save money for customers. If these conditions are met, the PUC issues a financing order that specifies the costs to be recovered and the allowed financing and related costs for the bonds. It also authorizes a bill surcharge dedicated solely to repayment of the bonds that would spread the costs over an extended period to limit impacts to customer’s monthly bills.

The utility creates a special purpose entity to issue prime-rated bonds. Investors purchase the bonds, with proceeds paid to the utility. The bonds are repaid over a defined period with revenue from the bill surcharge.

The PUC monitors the process for the duration of cost recovery and bond repayment, including an annual compliance review of securitization costs and a true-up of over- or under-collected funds from the previous year.

The Benefits

Minnesota utility customers benefit from lower monthly bills because cost recovery is spread over an extended period, along with savings made possible by favorable financing on prime-rated bonds.

Regulatory oversight throughout the process protects utility customers and the public interest. Taxpayers are protected because the bonds are not an obligation of the State of Minnesota