



**Testimony of Ashok Gupta, NRDC
In Support of SB 245
Senate Financial Institutions and Insurance Committee
February 18, 2021**

Good Morning. Chairman Longbine, Vice Chairs Fagg and Peck, and Members of the Financial Institution and Insurance Committee, thank you for the opportunity to present my thoughts on securitization legislation before you – SB 245.

My name is Ashok Gupta and I am a Senior Energy Economist at NRDC (Natural Resources Defense Council). I have been with NRDC since 1991 and my work has primarily focused on electric utility regulatory issues. The last eight years I have resided in Merriam, Kansas. My goal has always been focused on finding solutions to complex challenges facing the utility industry.

What you have in SB 245 is a solution – a tool - to help utilities, regulators, and policy makers transition to less expensive resources while dealing with undepreciated regulatory assets. One of the main issues that the Legislature has been focused on is how to reduce costs for Kansans. The Legislature asked that a study be done on this topic and such a study was completed by London Economics early in 2020. One of its recommendations was securitization.

This tool, called securitization or ratepayer backed bonds (RBBs), is not new or controversial. It has been authorized by state legislatures in 20+ states (including Texas, Florida, Louisiana, West Virginia) and has been used to help refinance over sixty investor-owned utility (IOU) transactions between 1997 and 2018 totaling over \$50 billion.

What SB 245 does is to create an opportunity for Kansas to take advantage of low-cost financing or ratepayer backed bonds to help consumers and to help manage transitions for utilities.

What are RRBs? RRBs are a direct borrowing based on repayment by ratepayers. Unlike utility corporate bonds, which are repaid using cash flow generated by the utility's whole business, RRBs are repaid from a special, dedicated charge. When RRBs replace higher-cost debt and equity, customer bills go down. This legislative proposal creates the right to put in place, adjust and collect these charges on customers' monthly utility bills as a property right for bondholders. Each RRB transaction must also be approved by a financing order issued by the

Kansas Corporation Commission (KCC), and the KCC is empowered in SB 245 to oversee the transaction to protect and benefit consumers as the RRBs are structured, marketed and sold.

Why is a legislative proposal needed? To free up the utility's equity capital for reinvestment in newer resources, and to achieve the most favorable interest rate on the RRBs from investors, national bond rating agencies look to specific authorization by state law and specific regulatory actions for assurance that bond investors will be repaid.

Are RRBs backed by the full faith and credit of the State? No. RRBs are private commercial bonds created through specific statute and authorized by the Kansas Corporation Commission. They are not an obligation of the State or any local governmental entity. No taxpayer funds are involved.

How have other states used RRBs? States have used RRBs for a variety of purposes. RRBs were first used in the late 1990's to refinance stranded costs of electrical generation assets when utility generation was being deregulated. To date, over \$50 billion of RRBs have been issued to finance various utility costs, such as costs for storm recovery, environmental measures, energy efficiency, and nuclear power plant retirements. For example, in June 2016, under the supervision of the Florida Public Service Commission, Duke Energy Florida used a \$1.294 billion issue of 20-year RRBs, bearing interest at an average rate of 2.72%, to lower the financing costs borne by ratepayers in connection with the early retirement of a damaged nuclear power plant. The savings to ratepayers was \$680 million in today's dollars over the 20- year life of the RRBs.

Does this bill require any change in generation mix? No. The decision about whether to retire an electric generating facility will continue to be made by the utility with KCC approval.

If RRBs are available in Kansas, will the electric utility be required to use them? No. An electric utility will decide whether to apply to the Kansas Corporation Commission (KCC) to use ratepayer-backed bonds. The KCC will oversee the transaction and ensure consumers benefit from the lowest cost of financing at the time the bonds are sold.

Why would an IOU choose to use RRBs? Because using RRBs reduce the business, financial and regulatory risks of keeping more expensive generating facilities in its fleet and lowers the financing costs that are borne by the ratepayers. When RRBs are sold, the utility's debt and equity capital previously used to finance such generating facilities can be freed up for reinvestment in newer resources. This saves ratepayers money.

I'm happy to take any questions and urge your timely consideration of SB 245 so consumers can benefit from access to lower cost financing. Thank you for your time.

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