



## ELECTRICITY AFFORDABILITY TOOLKIT

# Securitization

### COST CONTROL

#### AT A GLANCE



##### TARGET COST DRIVERS

The policy can help to ease customer cost pressures created by these drivers

- Extreme weather/wildfires
- Misaligned utility incentives



##### IMPACT TIME HORIZON

Page 2

How long it typically takes before changes materialize in utility behavior or customer bills



Medium-term (2–5 years)



##### POTENTIAL COST SAVINGS

Page 2

The level of cost savings that can reasonably be expected to result from this policy



Medium

#### CONTEXT AND BACKGROUND

Securitization is a financing mechanism that allows utilities to recover certain costs at a lower expense to customers. Utilities often use securitization to retire uneconomic generation assets by paying back the remaining plant balance with low-interest, ratepayer-backed bonds, rather than the utility’s higher-cost rate of return.

Once legislation is in place that enables securitization, utilities may apply for regulatory approval of bonds to refinance outstanding investments or stranded costs, typically resulting in lower net present value costs and lower monthly charges to customers than traditional cost recovery through rates.

In situations where securitization leads to the retirement of a generation asset, utilities can use [capital recycling](#), an approach that involves taking existing plants off a utility’s balance sheet and replacing that rate base with new, least-cost generation resources.

This strategy improves utility earnings by helping recover some of the costs associated with the old assets

and allowing them to make money from the new energy investments.

States authorize the use of securitization for a variety of purposes, including the [retirement of generation facilities](#), [wildfire-related costs](#), and investing in energy efficiency, clean energy, [resilience](#), or [customer affordability programs](#). Most recently, a major wave of securitization legislation followed Winter Storm Uri, enabling utilities to recover billions of dollars in extraordinary fuel costs through securitization. While this helped shield customers from abrupt, extreme rate increases, it also underscored the risks of overreliance on fuels with volatile costs.

Securitization has gained traction as a tool to modernize the electricity system and free up capital for lower-cost generation resources. It has been applied in more than a dozen states and is gaining momentum as a strategic electricity affordability policy.



### FURTHER READING

- [“Securitization in Action,”](#) RMI, 2022
- [“Comparing 2019 Securitization Legislation in Colorado, Montana, and New Mexico,”](#) Energy Innovation, 2020
- [“The Rationale Behind U.S. Utility Securitization And Reasons For Recent Growth,”](#) S&P Global Ratings, 2024
- [“Securitization: A Valuable Tool For Cost Recovery Opportunities Outside a Normal Rate Case,”](#) MCR, n.d.

<sup>1</sup> Source: Christian Fong, pers. com.

## REAL-WORLD EXAMPLES

**13 states** have securitization enacted, most of which require plant retirement for securitization.<sup>1</sup> *Read in-depth case study about Montana on Page 4.*



**New Mexico’s** Energy Transition Act ([Senate Bill 489](#)) enabled securitization of 100% of undepreciated investment in retiring coal plants, plus related costs like decommissioning and remediation. The policy requires facility abandonment and that a portion of the proceeds from the process be used for just transition, economic development, and worker assistance in communities. Securitization must result in utility customer savings according to the law. The legislation’s use of the word “abandonment” initially raised questions, with some stakeholders debating whether this could allow a utility to sell a coal plant to another owner who could continue operating it, rather than retiring it. Subsequent developments clarified that the intent of the statute was to require retirement, not transfer of ownership, but the initial ambiguity underscores the importance of precise statutory language.



**North Carolina’s** [House Bill 951](#) (HB 951) requires the securitization of 50% of the remaining value of specific coal-fired generating facilities, with retirement dates established in the legislation — an innovative approach since in most other states, securitization is something optional that utilities may pursue. The policy assumes proceeds will cover costs associated with retirement and does not require funding be used for purposes like pollution abatement or worker transition. The bill also does not include formal affordability requirements and instead relies on the assumption that securitized bonds carry lower interest rates than traditional utility cost recovery. HB 951 pairs securitization with cost-saving mechanisms like performance-based ratemaking.



### IMPACT TIME HORIZON

#### Medium-term (2–5 years)

The timing of securitization impacts can range widely, but plant retirement dates are often in the range of a few years or more from the date of enactment. For example, North Carolina’s securitization bill required retirement between 2 and 6 years after passage.



### POTENTIAL COST SAVINGS

#### Medium

Using securitization to close Public Service of New Mexico’s San Juan Generating Station and investing in renewable replacement resources saved that utility’s customers nearly \$80 million in 2023 alone, with the average residential customer saving \$6.87 per month. Actual cost savings will vary based on policy design and implementation.



## LEGISLATIVE DESIGN AND IMPLEMENTATION CONSIDERATIONS

Securitization legislation can include the following elements, which may vary from state to state:

### Eligible costs

Clearly defining what types of costs can be securitized, including undepreciated power plant value, decommissioning costs, and remediation, ensures only appropriate expenses are included.<sup>2</sup>

### Affordability requirements

Requiring that securitization results in net ratepayer savings compared to traditional cost recovery methods ensures customers benefit directly, and requiring fair allocation of costs across customer classes mitigates disproportionate impacts on vulnerable groups.<sup>3</sup>

### Approval and oversight

Empowering the commission to approve or deny financing orders, set bond terms, structure surcharges, and hire independent, expert counsel helps ensure that the financing is structured in the lowest cost way possible. Allowing

for intervenor participation and public hearings during the financing order approval process builds transparency and provides additional safeguards.

### Use of proceeds

Setting requirements on using a portion of securitized funds to invest in transition assistance for affected communities and workers, electricity affordability mechanisms like bill rebates, or other state priorities can broaden the benefits of securitization.

### Retirement

Tying securitization to the permanent retirement of older generation assets can guarantee that financial savings are coupled with progress toward electricity system modernization.

### Bond design

Requiring bonds to be low-interest,

The table below provides examples of how authority and responsibility for securitization may be distributed across key entities.

VENUE	POTENTIAL ROLES
<b>Legislature</b>	<ul style="list-style-type: none"> <li>Specify the eligible costs that can be securitized</li> <li>Clarify authority for approval and oversight</li> <li>Establish guidelines for the use of securitization proceeds</li> <li>Create requirements for facility retirement</li> </ul>
<b>Regulator</b>	<ul style="list-style-type: none"> <li>Review applications and issue financing orders</li> <li>Implement retirement requirements</li> <li>Design the details of securitized bonds</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>Establish related policies</li> <li>Coordinate with other programs</li> </ul>
<b>RTO/ISO</b>	<ul style="list-style-type: none"> <li>No direct role</li> </ul>

high credit quality, and structured to minimize risk delivers savings and

protects customers.

<sup>2</sup> Legislation may authorize the securitization of both capital expenditures (capex) and operating expenditures (opex). For capex—such as the unrecovered balance of a retired power plant—securitization directly lowers costs by replacing the utility's higher-cost return on equity and debt with lower-cost, AAA-rated, ratepayer-backed bonds. For opex—such as storm recovery or wildfire mitigation—overall cost savings are less certain as these expenses are typically passed directly through to customers without earning a return. In these cases, the primary benefit may be avoiding large, immediate rate increases by spreading cost recovery over time, even if this slightly increases total costs due to interest.

<sup>3</sup> Recent legislation in a number of states has specifically exempted new large loads from paying securitization charges under the rationale that these loads did not benefit from the retiring assets so should not have to pay for them. While that is true in principle, new large loads can also impose other costs that other customers become responsible for without well-designed tariffs or ringfencing.



## CASE STUDY: MONTANA

### OVERVIEW

Montana's [House Bill 467](#) (HB 467), the Montana Energy Impact Assistance Bond Act, authorizes utilities to issue ratepayer-backed bonds to finance the retirement or replacement of electricity infrastructure and facilities.

The legislation aims to reduce costs to customers, modernize the grid, and support least-cost generating resources while also mitigating rate impacts from major capital expenditures.

Utilities are not required to retire any specific facilities but may seek approval from the commission to securitize eligible costs when in the public interest.

### THE DETAILS

#### Eligible Costs

Allows utilities to securitize unrecovered capital costs of retired or replaced electric infrastructure or facilities, decommissioning and site restoration costs, and other related costs approved by the commission.

#### Affordability Requirements

In approving securitization, utilities must demonstrate that the approach will either lower overall costs to customers or substantially mitigate rate impacts relative to traditional financing. They must also show that securitization will result in net present value savings compared to other financing options.

#### Approval and Oversight

The Montana Public Service Commission (PSC) reviews utility applications and issues financing orders aligned with the law. The PSC has broad authority to attach conditions to maximize savings, minimize financial risks, and protect directly impacted workers and communities.

#### Use of Proceeds

Proceeds may offset stranded costs from plant retirements or replacements or be invested in modernized infrastructure, least-cost generation and storage resources, and transmission or electric delivery upgrades.

#### Retirement

Utilities must retire a plant for securitization to be applicable.

#### Bond Design

Legislation requires that securitized bonds be issued through a financing order approved by the commission with charges passed to customers. Bonds have thirty-year maturities and are secured by dedicated customer charges.

### KEY TAKEAWAYS

HB 467 provides Montana utilities with a flexible securitization tool to finance the retirement or replacement of electric infrastructure while minimizing customer cost impacts.

It also allows the proceeds to be funneled toward least-cost resources and grid modernization.

Its effectiveness will depend on how utilities employ the tool and how rigorously the PSC uses its oversight powers to protect customers and align with long-term energy policy goals.