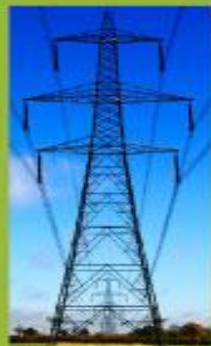


**HB 19-1037**

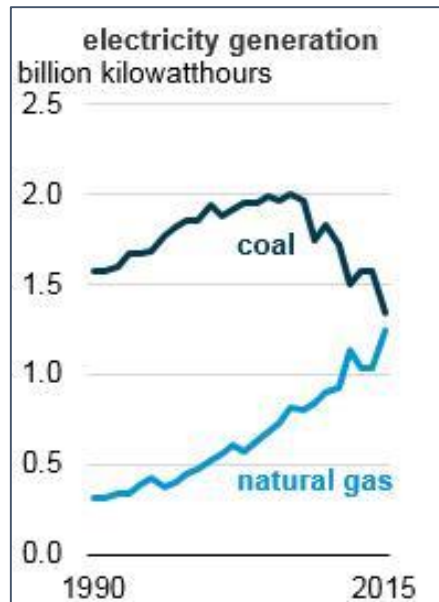
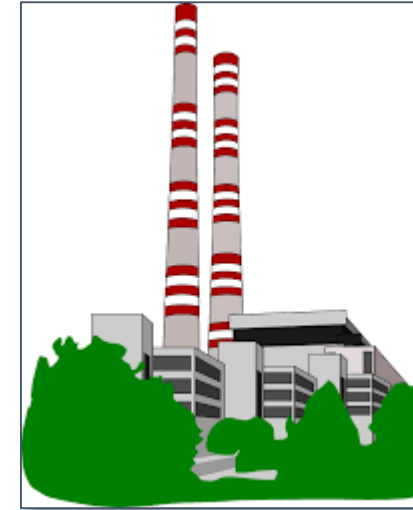
**Colorado Energy Impact  
Assistance Act**

**Representatives Chris Hansen & Daneya Esgar  
Senator Kerry Donovan**



# The Challenge

- Across 43 states, 558 coal-fired electric generating units (105,000 MW) have shut down or plan to shut down over the period 2010 –2025, approximately 30% of the total installed base.\*



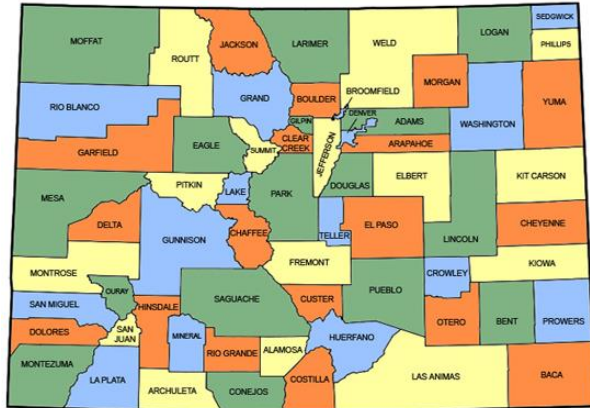
- In 2016, for the first time in U.S. history, more Natural Gas was used for electricity production than Coal\*\*

\*American Coalition for Clean Coal Electricity.

\*\*Energy Information Administration

# The Challenge

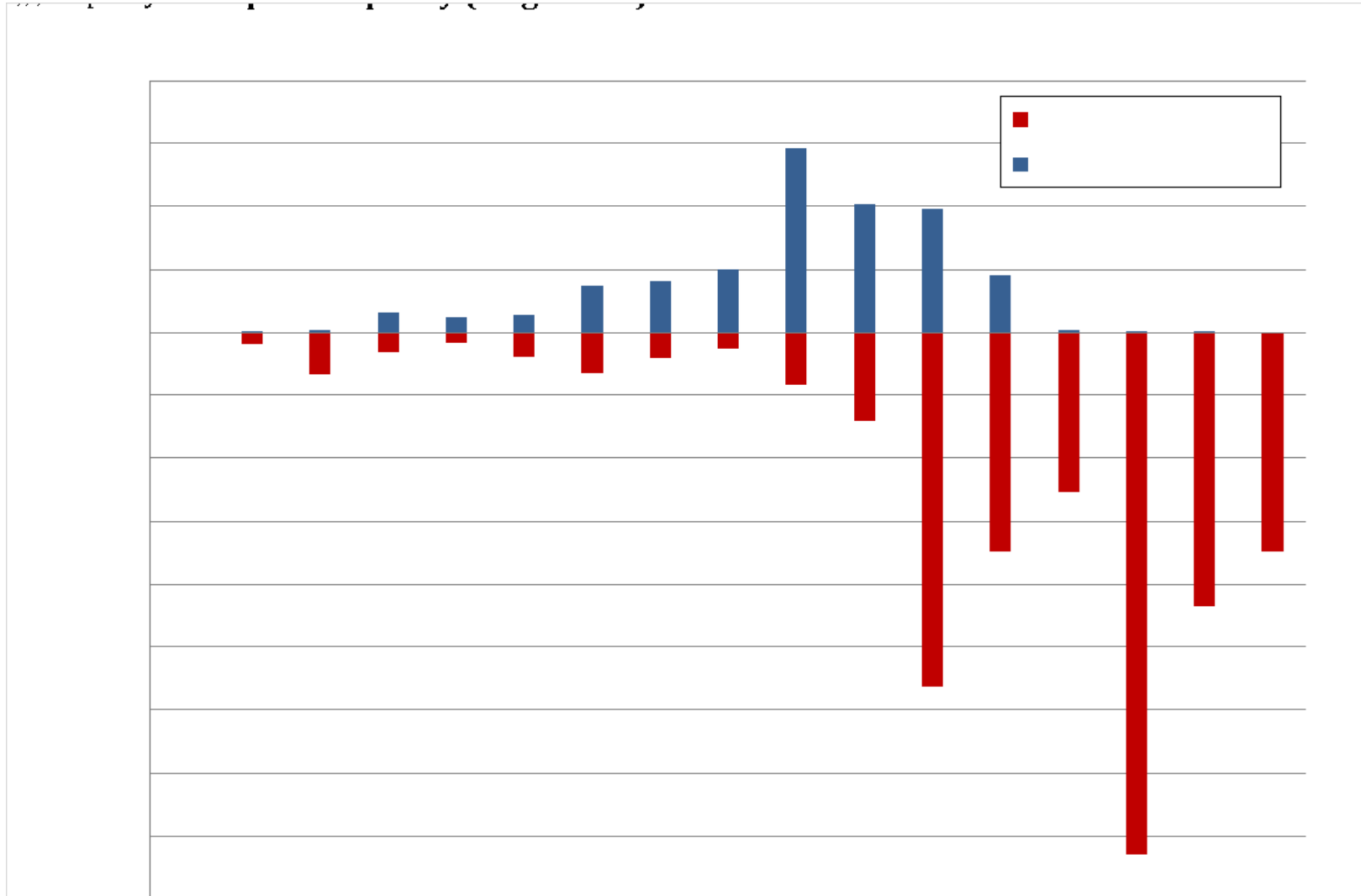
- Coal plant closures are likely to continue, given the lower costs of alternative generation, especially natural gas and wind/solar generation.



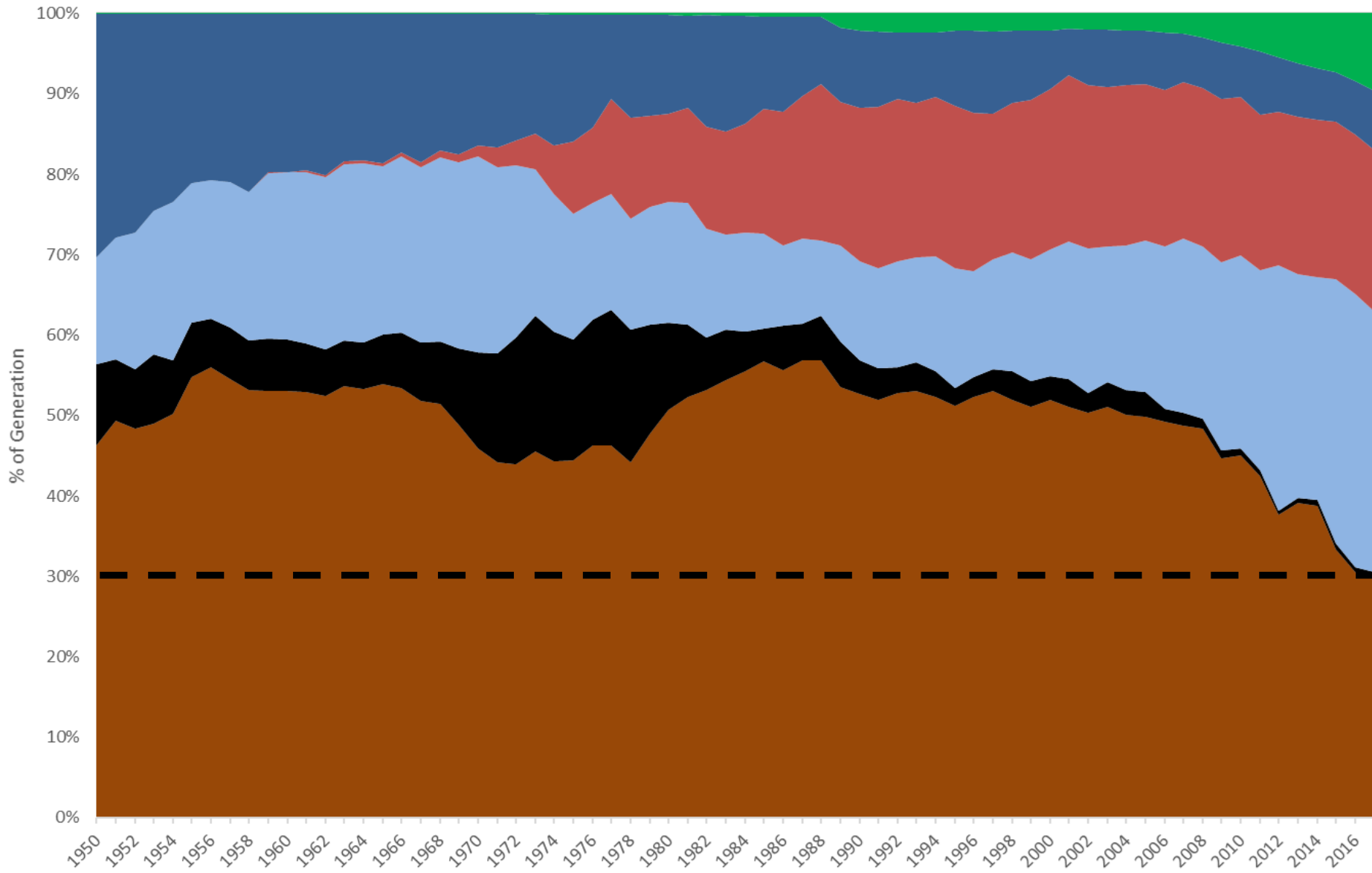
- Colorado should plan ahead for this possibility and reduce the impact of this trend on affected Colorado workers and communities.

# U.S. Coal Capacity Installations and Retirements

Announced closures, as of May 2018, total 102 GW of coal-fired generation capacity (30% of the 339 GW of coal capacity in 2010) will be retired or repowered between 2010 and 2024

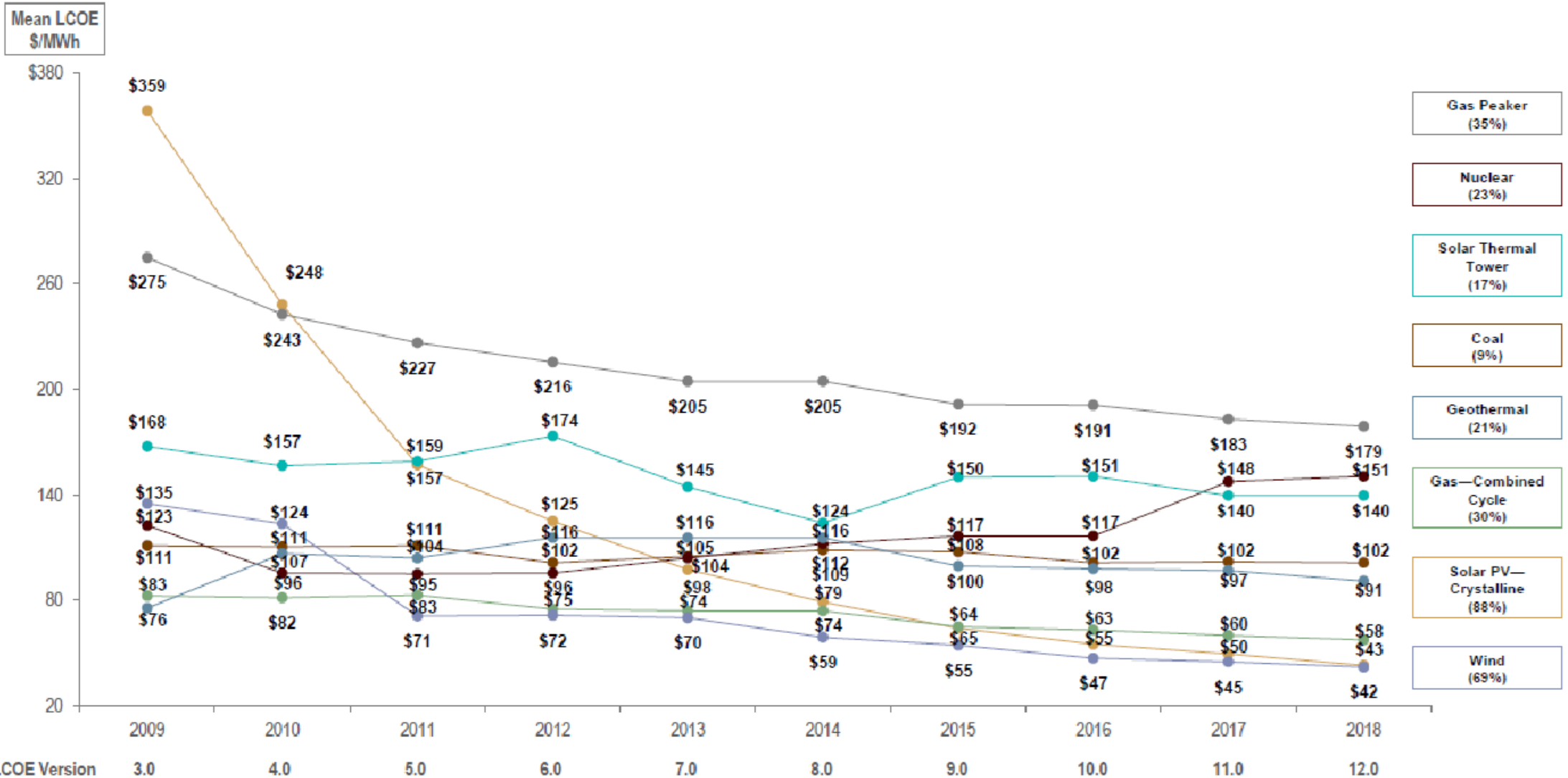


# U.S. Net Generation by Market Share, 1950-2017



Source: U.S. Energy Information Administration.

## Selected Historical Mean Unsubsidized LCOE Values<sup>(1)</sup>

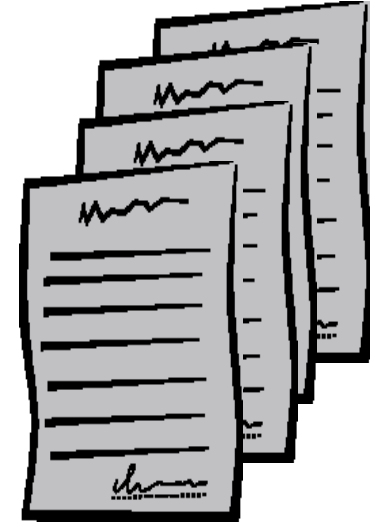


Source: Lazard estimates.

(1) Reflects the average of the high and low LCOE for each respective technology in each respective year. Percentages represent the total decrease in the average LCOE since Lazard's LCOE—Version 3.0.

# Securitization Approach

- If a power plant closes, utilities might have undepreciated assets on their books that ratepayers must pay back, even though the plant is no longer running.
- Ratepayer-backed bonds can be used to refinance the closed plants at lower cost.
- This is called “securitization.” Because these AAA bonds have a lower interest rate than the utility’s capital cost, (e.g. 2.8% compared to 7%) customers save money and the utility moves a stranded asset off its books.
- A portion of the savings can be used for assistance for workers and communities displaced by coal plant closures.

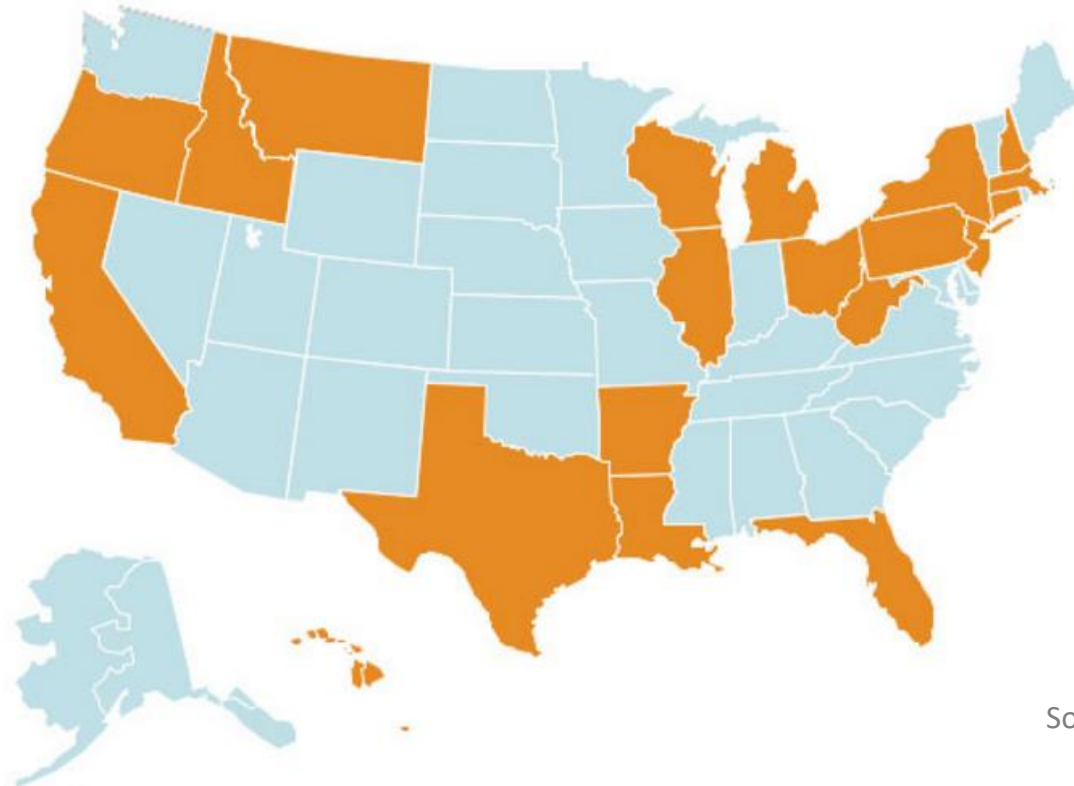


# Precedent for securitization

- This idea is not new – it was used during wholesale electric restructuring to finance “stranded costs” of some utilities.
- How securitization is being used today:
  - **Duke Energy (FL)** recently used securitization to finance \$1.3 billion in assets of a closed nuclear plant in Florida. The interest rate is 2.72%, much lower than Duke’s rate of return. The deal saves customers \$700 million over 20 years.
  - **Consumers Energy (MI)** received approval from the PUC to sell \$389.6 million in securitization bonds to capture the unrecovered net book value of 950 MW of coal-fired capacity retired in 2016.

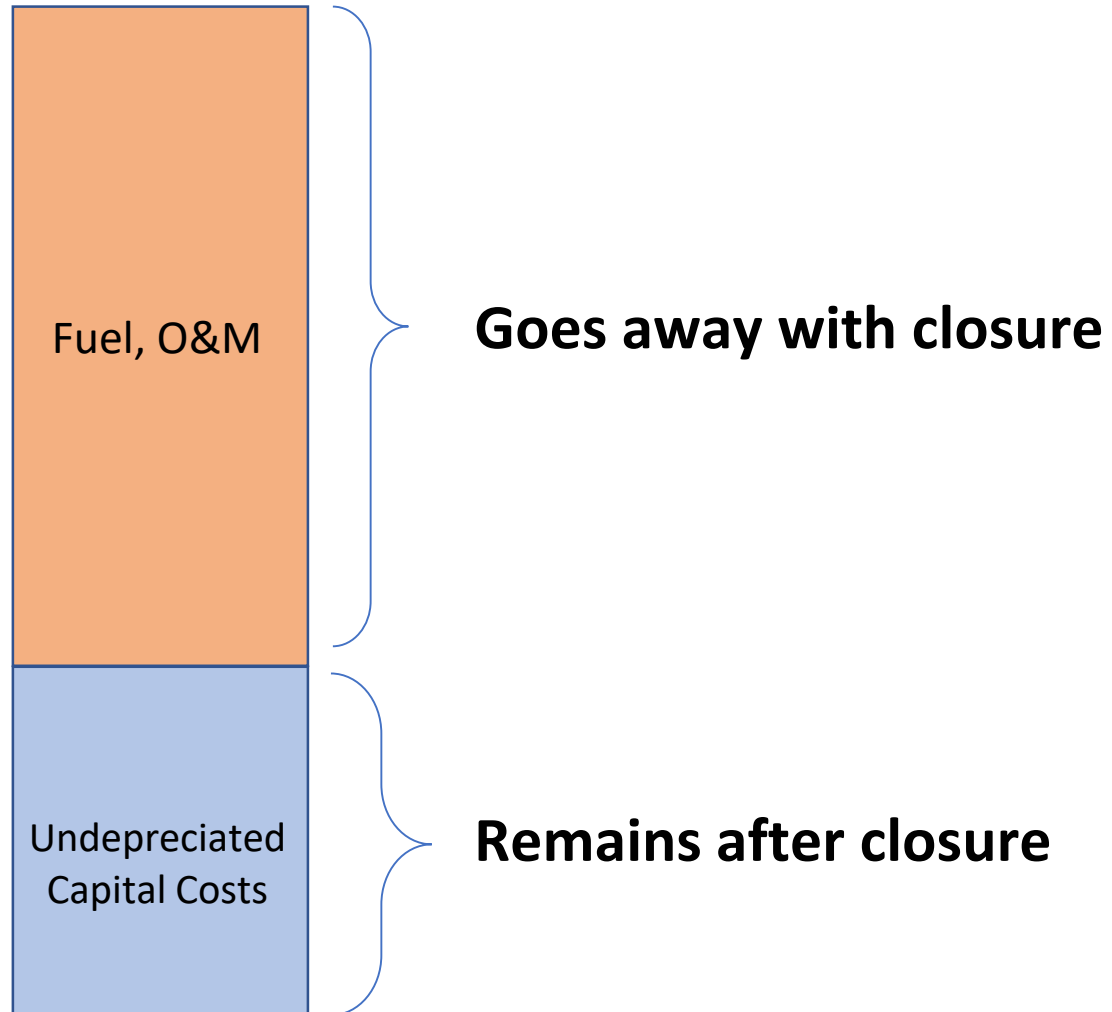
# 20 States have statutes that permit securitization of utility assets. Colorado does not.

## States with Past or Current Enabling Utility Fee Securitization Legislation

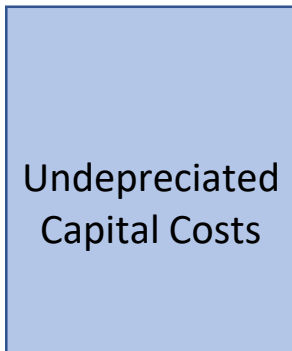


Source: Saber Partners

# The Cost of a Power Plant



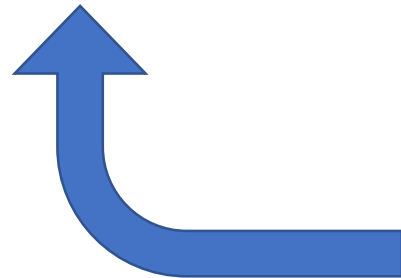
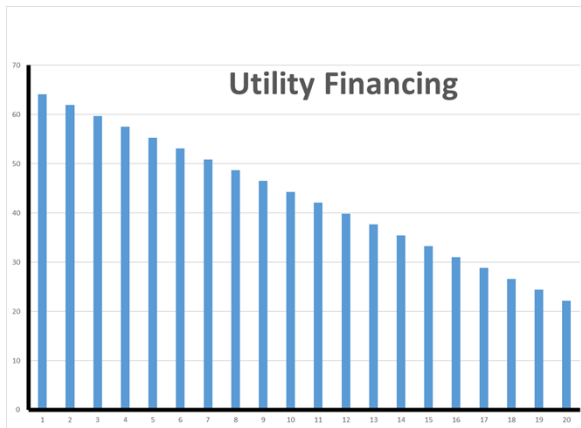
# How to finance the stranded costs



Undepreciated  
Capital Costs

# How to finance the stranded costs

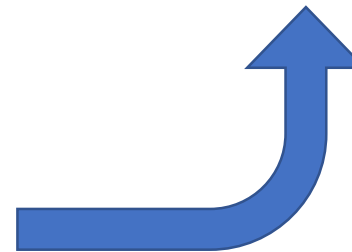
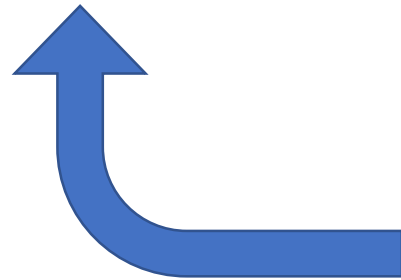
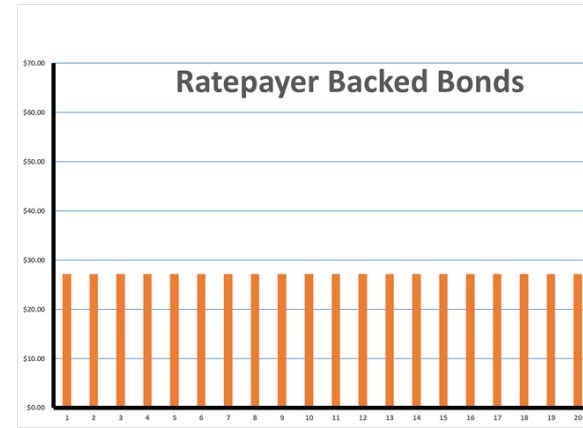
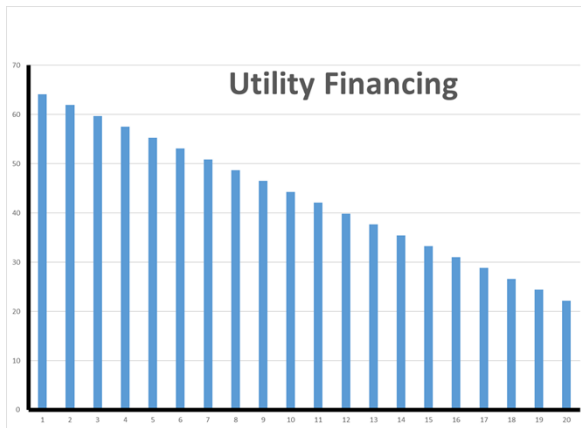
## Two choices:



Undepreciated  
Capital Costs

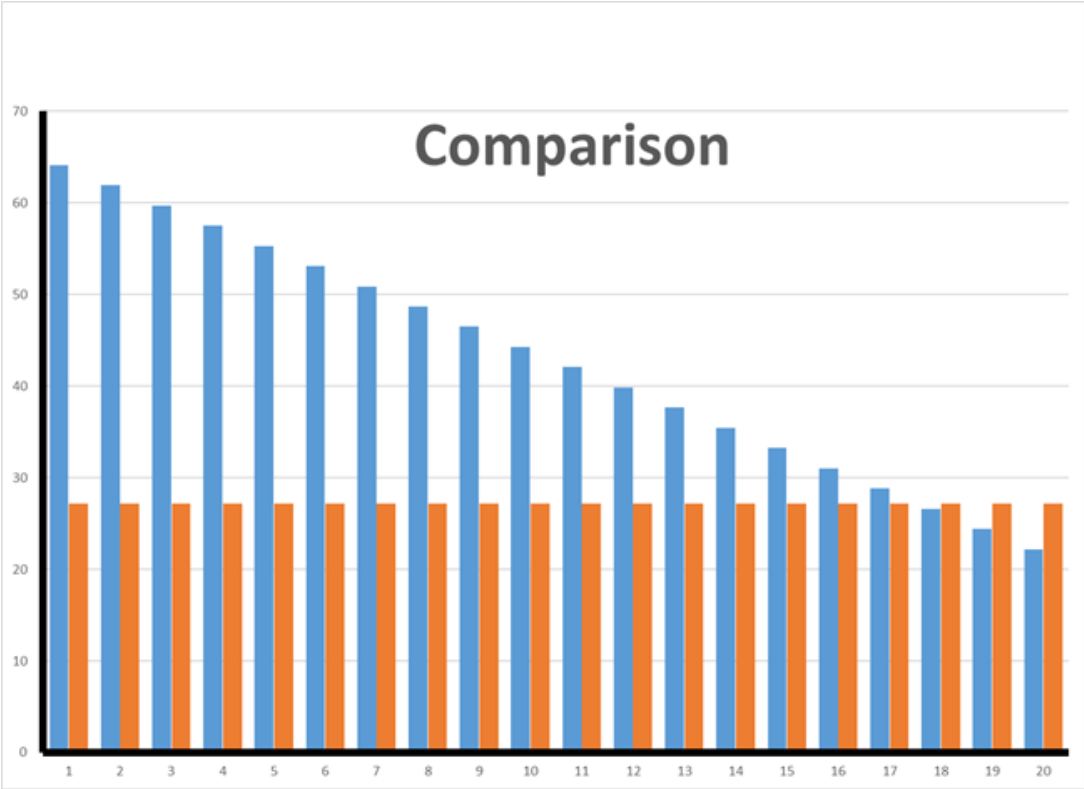
# How to finance the stranded costs

## Two choices:

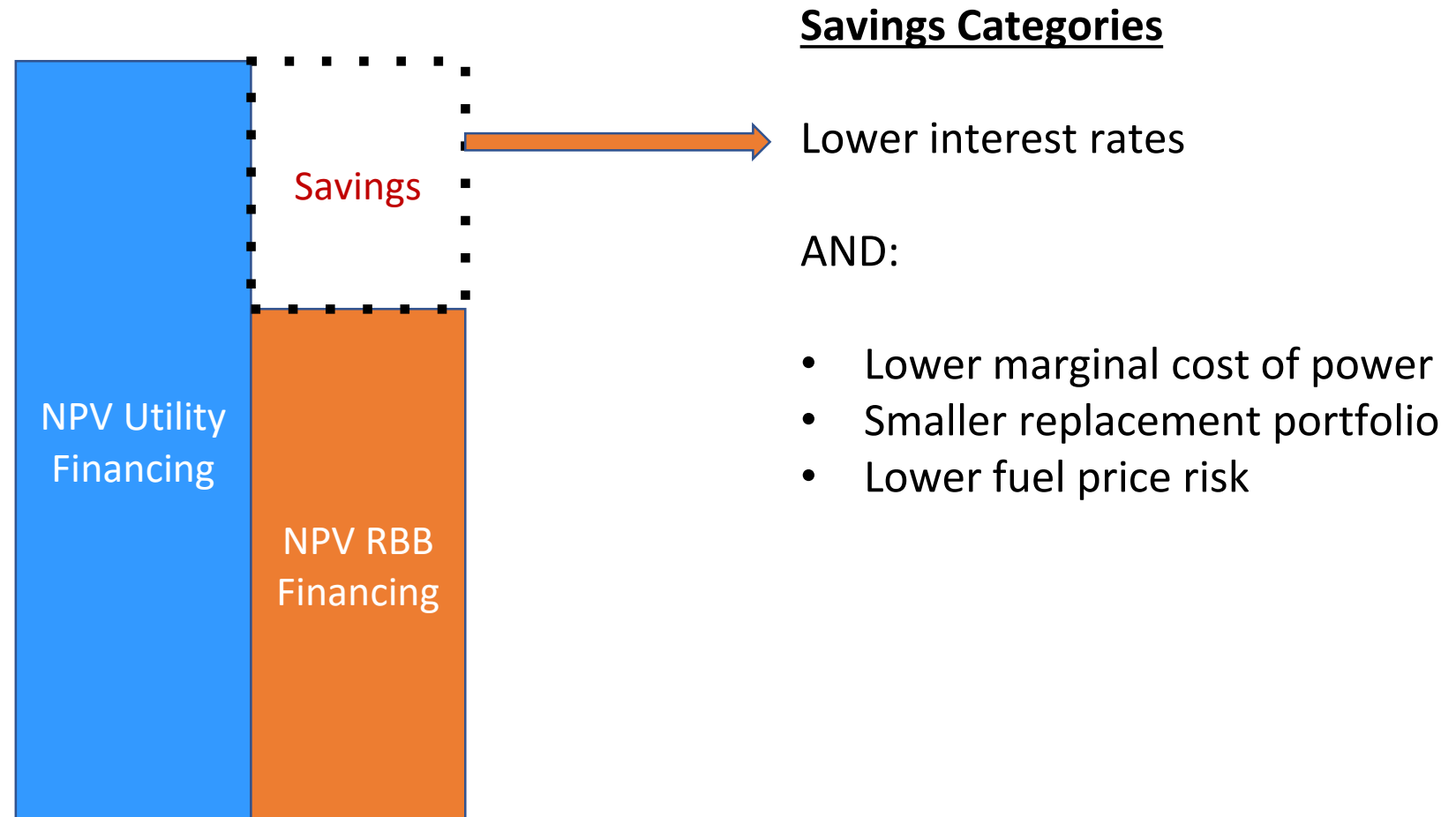


Undepreciated  
Capital Costs

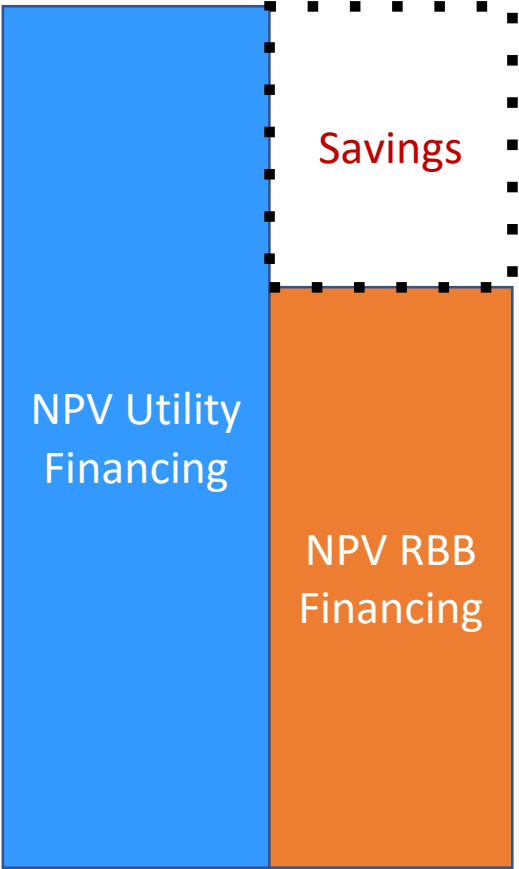
# Ratepayer-Backed bonds will produce substantial savings...



# Ratepayer-Backed bonds will produce substantial savings...



# The savings can be used for several purposes



- Rate reductions for consumers
- Retraining for affected workers
- Property tax support for affected local gov't

# What Colorado HB 19-1037 does:

(Reps. Chris Hansen & Daneya Esgar; Sen Donovan)

- Permits Colorado investor-owned utilities to use “securitization” when and if a generation asset is no longer economical or is at the end of its useful life.
- Directs at least 15% of the savings from securitization to assist workers and communities affected by the closure.
- Establishes the Colorado Energy Impact Assistance Authority (CO-EIA) to administer the assistance.

# What HB 1037 does not do

- Does not require the use of securitization. It is an option for a utility or generation company to use.
- Does not mandate the closure of any power plants.
- Does not raise utility rates; it lowers them.
- Does not affect TABOR limits.
- Does not have a fiscal impact or create state debt

# Hypothetical \$500M Xcel Securitization

## Ratepayer Electric Bill Impact by Class

Tariff Class	Savings Year 1	Long Term Savings (20-years)
Transmission General (TG)	-1.4%	-19.1%
Primary General (PG)	-1.1%	-8.0%
Secondary General (SG)	-1.0%	-5.8%

# **Hypothetical \$500M Xcel Securitization**

- **\$30-50 million for worker and local government assistance**
- **\$200 Million savings for ratepayers on depreciation costs**

# Why 15% of Ratepayer Savings for Transition Assistance?

CO-EIA bond savings analysis results in approximately \$6M in transition assistance per \$100M refinanced. This example uses a \$500M bond issue. Unretired plants may have remaining capital balances higher or lower than this example.

- **Transition Assistance Analysis**

- Plant Retired, Assumed Securitized Capital Amount: \$500M
  - Ratepayer Savings are estimated to be \$40M per \$100M refinanced, or \$200 million
  - 15% of Ratepayer Savings (15% x \$160) savings equals \$30 million
- 
- Estimated Property Tax Loss: \$2.2M per year x 5 years = \$11M
  - Estimated Number of Workers Displaced or Not-Retained: 100 X \$90,000 annual salary = \$9M
  - Workers wage support if needed while in transition
  - Estimated Worker Training Costs: 100 workers x \$50,000 = \$5M
  - **Total Estimated Local Impact: \$25M = \$11M + \$9M + \$5M**

# Summary

- HB 1037 authorizes investor-owned utilities to use “securitization” when and if a power plant is closed.
- Directs 15% of savings from securitization to assist workers and communities affected by the closure
- Establishes the Colorado Energy Impact Assistance Authority (CEIAA) to administer the assistance.