BEFORE THE

GEORGIA PUBLIC SERVICE COMMISSION

In Re:	)	
Georgia Power Company's	)	**Docket No. 44280**
Storm Damage Recovery Application	)	

Testimony & Exhibits

of

Jeffry Pollock

On Behalf of

Georgia Association of Manufacturers

April 17, 2026

J. POLLOCK
INCORPORATED

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EXHIBIT LIST

Exhibit	Description
JP-1	Securitization: A Valuable Tool for Cost Recovery Opportunities Outside a Normal Rate Case
JP-2	Traditional Ratemaking Versus Securitization
JP-3	Moody's Investor Services 18 July 2018: Utility Cost Recovery Through Securitization is Credit Positive

GLOSSARY OF ACRONYMS

Term	Definition
ARP	Alternate Rate Plan
FCR-27	Docket No. 56765 – GPC Fuel Cost Recovery
FCR	Fuel Cost Recovery
GAM	Georgia Association of Manufacturers
GPC	Georgia Power Company
kWh	Kilowatt-Hour
NPV	Net Present Value
PTC	Production Tax Credit
ROE	Return on Equity
SCR	Storm Cost Recovery
WACC	Weighted Average Cost of Capital

DIRECT TESTIMONY OF JEFFRY POLLOCK

Introduction, Qualifications and Summary

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock; 14323 South Outer 40 Rd., Suite 206N, St. Louis, MO 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Masters in Business Administration from Washington University in St. Louis, Missouri. Since graduation in 1975, I have been engaged in a variety of consulting assignments, including energy procurement and regulatory matters in both the United States and several Canadian provinces. My qualifications are documented in **Appendix A.** A list of my appearances is provided in **Appendix B** to this testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am testifying on behalf of the Georgia Association of Manufacturers (GAM). The members of GAM are customers of Georgia Power Company (GPC). They consume large quantities of electricity, primarily for manufacturing, under a variety of rate schedules.

Q WHAT ISSUES ARE YOU ADDRESSING IN YOUR DIRECT TESTIMONY?

A First, I provide an overview of GPC's request to recover $912 million of storm damage expenses over a four-year period ending May 31, 2030. I then discuss alternatives to GPC's proposed recovery of these storm damage expenses. Specifically, I address

the amortization period over which these costs should be recovered, how these costs should be financed, and the appropriate cost recovery mechanism through which they should be recovered. Finally, because I have identified more affordable ways to recover storm damage costs than proposed by GPC, I address why nuclear production tax credits (PTCs) authorized under Section 45U of the Internal Revenue Code should not be used to offset storm damage costs.

Q DOES THE FACT THAT YOU ARE NOT ADDRESSING ALL ISSUES IN THIS PROCEEDING CONSTITUTE AN ENDORSEMENT OF THE POSITIONS OF GEORGIA POWER COMPANY OR OTHER PARTIES ON THESE ISSUES?

A No. The fact that I am not addressing every issue should not be interpreted as an endorsement of proposals made by GPC or other parties in this proceeding.

Q ARE YOU SPONSORING ANY EXHIBITS WITH YOUR DIRECT TESTIMONY?

A Yes. I am sponsoring **Exhibits JP-1** through **JP-3**.

Summary

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A My findings and recommendations are as follows:

- GPC is proposing to increase base revenues by $270 million, which includes $360 million in (incremental) storm damage expenses ($390 million of annual costs less $31 million currently recoverable in base rates) offset by $90 million of Section 45U nuclear PTCs earned in 2024 and 2025.
- The $390 million revenue requirement assumes cost recovery using traditional ratemaking practices and a four-year amortization. GPC would accrue carrying charges on the unamortized storm balance at its current 7.82% weighted average cost of capital (WACC), which includes a 10.5% return on equity (ROE) with equity comprising 56% of total capital.
- GPC is proposing to increase all base tariff rates by the same percentage.

- The proposed base rate increase would be offset by GPC's separate Fuel Cost Recovery (FCR-27) filing in Docket No. 56765, in which the Company is seeking to reduce annual fuel revenues by $388 million. The net impact of these concurrent filings is a reduction in total revenues of $118 million.
- Although GPC proposes to use the $90 million of nuclear PTCs to offset these storm damage expenses to address affordability concerns, there are more appropriate alternatives to address affordability, such as:
    - Extending cost recovery over a longer amortization period; and
    - Using debt financing.

  Both alternatives would be more cost-effective than GPC's proposal.
- Extending the amortization period to eight years, for example, would reduce the annual revenue requirement by approximately 28%.
- Using debt financing, coupled with an eight-year amortization period, would reduce the annual revenue requirement by 37%.
- Securitization is a more cost-effective approach than traditional ratemaking for financing storm damage costs. Securitization would provide GPC with cash upfront, and base rates would be lower (and thus, more affordable) because it would support a more gradual recovery of the costs. Because storm damage costs are deferred expenses, securitization would not result in lost shareholder profits.
- Rather than recovering the storm damage costs by adjusting base tariff rates, the Commission should require all storm damage costs to be recovered through a separate Storm Cost Recovery (SCR) rider designed as a percentage of base revenues. This treatment would allow GPC to track the remaining storm damage balance more accurately and adjust the rate, as necessary, to recognize projected sales and base revenue growth.
- By deploying more cost-effective alternatives, it becomes unnecessary to use the nuclear PTCs to offset the storm damage costs as proposed by GPC. Instead, consistent with cost causation, the nuclear PTCs should be used to offset fuel expense in GPC's calculation of FCR-27 rates in its concurrently pending Docket No. 56765.

Overview

Q WHAT IS GEORGIA POWER COMPANY PROPOSING IN THIS APPLICATION?

A GPC is proposing to increase annual base revenues by $270 million (3.2% of total annual revenue) to recover expenses associated with major storms since the

Company's 2022 base rate case over a four-year period.[1] Pursuant to the 2022 rate case settlement, the increase is to be applied to each customer group on an equal percentage basis, excluding Fuel Cost Recovery (FCR) revenues, to each class's energy, demand, and basic service charge components.[2]

Q IS THIS THE ONLY PENDING APPLICATION THAT WILL IMPACT RETAIL RATES?

A No. In a concurrent filing GPC is seeking to reduce annual fuel revenues by $388 million (4.6% of total annual revenue).[3] Together, the two filings would result in a net $118 million (1.4%) reduction in overall rates ($388 million less $270 million). The FCR and storm cost recovery rates are proposed to become effective June 1, 2026.[4]

Q WHY IS GEORGIA POWER COMPANY PROPOSING TO RECOVER STORM COSTS IN THIS PROCEEDING?

A Although a three-year rate freeze for the period 2026 through 2028 became effective as a result of the Alternate Rate Plan (ARP) Stipulation approved by the Commission in this docket on July 31, 2025, the ARP Stipulation allowed for recovery of storm costs as the sole exception to this rate freeze. As a result, GPC is proposing to recover the expenses associated with various weather events that have impacted its system since the 2022 base rate case.

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[1] Direct Testimony of Cleve L. Fann, Josh J. Stallings, and Matthew S. Berrigan at 3, 27-29.

[2] Georgia Power Company's 2022 Rate Case, Docket No. 44280, *Order Granting Joint Petition of Georgia Power Company and the Public Interest Advocacy Staff and Approval of the Stipulation to Extend the Alternative Rate Plan*, Attachment 1 (Jul. 31, 2025).

[3] *Georgia Power Company's Fuel Cost Recovery (FCR-27)*, Docket No. 56765, Direct Testimony of Adam D. Houston and Matthew S. Berrigan at 5 (Feb. 17, 2026).

[4] *Id.* at 7; Direct Testimony of Cleve L. Fann, Josh J. Stallings, and Matthew S. Berrigan at 27.

Q PLEASE DESCRIBE THE KEY COMPONENTS INCLUDED IN GEORGIA POWER COMPANY'S PROPOSED STORM COST RECOVERY.

A GPC is requesting recovery of the following costs:

- $912 million in damages resulting from ten named (and various unnamed) storms not otherwise recovered in base rates, which includes internal labor and fleet, outside services, materials and supplies, and other expenses that are incurred as a result of major storms that exceeded $50,000 per event;[5]
- An accrual for annual storm expenses averaging $101.3 million per year;[6] and
- Carrying charges on the unamortized balance of the storm regulatory asset ($621 million net of accumulated deferred income taxes) for the period May 2026 through May 2027 at GPC's current 7.82% WACC, which includes 56% common equity at an ROE of 10.50% and 44% long-term debt at a cost of 4.41%.[7]

Q WHAT IS THE TOTAL REVENUE DEFICIENCY FOR WHICH GEORGIA POWER COMPANY IS REQUESTING RECOVERY IN THIS PROCEEDING?

A In total, GPC is requesting recovery of $360 million in storm expenses that are incremental to the $31 million currently recovered in base rates. GPC is proposing to offset this increase by applying $90 million in nuclear PTCs such that the net revenue requirement requested in this proceeding is $270 million.[8]

Q HOW IS GEORGIA POWER COMPANY PROPOSING TO RECOVER PAST STORM DAMAGE COSTS?

A GPC is proposing to use traditional ratemaking practices to recover past storm

[5] Direct Testimony of Cleve L. Fann, Josh J. Stallings, and Matthew S. Berrigan at 11; GPC Response to GAM 1-5.

[6] *Id.* at 27; Minimum Filing Requirement 7.1.

[7] *Id.,* Exhibit___(CLF/JJS/MSB) Pg. 1; Minimum Filing Requirement 8.

[8] *Id*.

damage expenses; that is, the $912 million storm recovery regulatory asset balance would be amortized over four years with carrying charges on the unamortized balance at GPC's current 7.82% WACC.

Q HOW IS GEORGIA POWER COMPANY PROPOSING TO RECOVER THE $270 MILLION BASE REVENUE INCREASE FROM CUSTOMERS?

A GPC is proposing to spread the increase to each class on an equal percentage of base revenues to each class, pursuant to the ARP Stipulation. However, it would do so by adjusting all base tariff charges rather than through a separate cost recovery mechanism. As discussed later, recovering these expenses in a separate mechanism (such as a rider) would facilitate tracking both the revenues collected and the remaining storm damage balance.

Alternatives to Georgia Power Company's Proposed Cost Recovery

Q HAVE YOU IDENTIFIED ANY ISSUES WITH GEORGIA POWER COMPANY'S PROPOSAL TO RECOVER THESE INCREMENTAL STORM COSTS?

A Yes. There are more cost-effective alternatives for recovering past storm damage expenses. These alternatives include a longer amortization period and the use of debt financing. Either alternative would result in less upward rate pressure on customers.

Amortization Period

Q OVER WHAT PERIOD IS GEORGIA POWER COMPANY PROPOSING TO AMORTIZE STORM COSTS IN THIS PROCEEDING?

A GPC is proposing to recover the $912 million under-recovery balance over a four-year period ending May 31, 2030.[9]

[9] *Id*. at 27.

Q WHAT IS THE REVENUE REQUIREMENT IMPACT OF GEORGIA POWER COMPANY'S PROPOSED FOUR-YEAR AMORTIZATION PERIOD?

A A four-year amortization period would result in an initial annual revenue requirement of $390 million.[10]

Q HOW DOES THE CHOICE OF AMORTIZATION PERIOD IMPACT AFFORDABILITY?

A The amortization period defines the number of years over which past storm damage expenses would be recovered. Thus, extending the amortization period would spread cost recovery over more years, thereby reducing the annual revenue requirement and making rates more affordable. For example, if recovery were extended to eight years, the initial annual revenue requirement would be $280 million, approximately 28% less than the 4-year recovery.

Q HOW WOULD A LONGER AMORTIZATION PERIOD IMPACT THE TOTAL REVENUES GEORGIA POWER COMPANY WOULD RECOVER FROM CUSTOMERS?

A Over time, an extended amortization period would result in GPC recovering more money, but the rates paid by customers would be more affordable, particularly in the near term.

[10] *Id.*, Exhibit___(CLF/JJS/MSB) Pg. 1.

Financing Costs

Q HOW IS GEORGIA POWER PROPOSING TO FINANCE THE $912 MILLION ACTUAL STORM RECOVERY REGULATORY ASSET BALANCE?

A GPC is proposing to use traditional ratemaking to recover the balance. Under traditional ratemaking, GPC can accrue carrying charges on the unamortized balance. For example, GPC projects that the average unamortized balance of the $912 million storm damage regulatory asset would be $621 million (net of accumulated deferred income taxes) for the 13-month period from May 2026 through May 2027. The associated carrying charges at GPC's 7.82% WACC would be $48.6 million.[11] The equity (or shareholder benefit) portion alone would be $36.5 million.

Q WOULD ADDITIONAL COSTS BE INCURRED TO FINANCE THE STORM DAMAGE REGULATORY ASSET?

A Yes. Equity is fully taxable. Further, the incremental revenues would increase GPC's taxable income. Thus, in addition to carrying charges, GPC would have to pay state and federal income taxes. During the first year, income taxes would add $85 million to the annual revenue requirement.[12]

Q HOW MUCH OF THE ANNUAL REVENUE REQUIREMENT WOULD BE INCURRED AS A RESULT OF USING EQUITY FINANCING?

A Table 1 summarizes the projected annual revenue requirements over the proposed four-year amortization period.

[11] *Id.*

[12] *Id.*, Exhibit___(CLF JJS MSB) Pg. 2.

Table 1
Summary of Annual Storm Damage Cost Recovery
Using Traditional Ratemaking
($Millions)

Cost	Year 1	Year 2	Year 3	Year 4	Total
Equity Financing	$36.51	$35.21	$14.00	$8.41	$94.13
Debt Financing	$12.04	$11.61	$4.62	$2.77	$31.04
Income Taxes	$84.95	$84.11	$82.64	$82.46	$334.16
Other	$256.89	$258.26	$252.28	$250.24	$1,017.67
Total	$390.39	$389.20	$353.54	$343.88	$1,477.00

Source: Exhibits_(CLF-JJS-MSB) extended through May 2030.

As Table 1 demonstrates, GPC is proposing to charge customers $1.477 billion to recover storm damage costs. The $1.477 billion includes $94 million of equity financing and $334 million of state and federal income taxes.

Q SHOULD GEORGIA POWER COMPANY'S SHAREHOLDERS BENEFIT FROM THE RECOVERY OF STORM DAMAGE COSTS?

A No. GPC's shareholders should not profit from storm damages that resulted in significant outages and inconveniences to its customers.

Q ARE THERE ANY ALTERNATIVE METHODS OF FINANCING STORM DAMAGE COSTS THAT WOULD RESULT IN MORE AFFORDABLE RATES?

A Yes. If affordability is a concern, then storm damage costs should be financed entirely through long-term debt which, coupled with an eight-year amortization period, would reduce the initial annual revenue requirement by 37% to $245 million. This treatment would remove the equity component that is included in GPC's proposal, thereby preventing shareholders from benefiting from the inconveniences caused by prolonged outages and more accurately reflect that the storm damage costs are

essentially incremental operation and maintenances costs rather than rate base investments.

Q ARE THERE MORE COST-EFFECTIVE WAYS TO EXTEND COST RECOVERY WHILE ALSO USING DEBT FINANCING?

A Yes. Securitization would allow GPC to extend the recovery of storm damage costs while also using 100% debt financing, thereby improving affordability.

Q WHAT IS SECURITIZATION?

A Securitization is a financing mechanism that provides timely recovery of certain regulatory assets, such as storm damage, by issuing a type of debt that would significantly lower the carrying costs of the assets relative to the costs that would be incurred using traditional ratemaking practices. Specifically, a special purpose (off-balance sheet) entity would be created whose sole purpose is to issue transition bonds that are used exclusively for purposes of reducing the amount of recoverable regulatory assets along with any other amounts as determined by the Commission through the refinancing or retirement of utility debt or equity. This special purpose entity would be entitled to the revenues collected by the utility through a separate cost recovery mechanism in an amount sufficient to timely recovery of the debt services associated with securitization bonds. Under this structure, securitization bonds would be "AAA" rated and carry the lowest possible interest rate.

Q WHAT ARE THE INTEREST RATES OF RECENT SECURITIZATION BOND ISSUES?

A Recently issued securitization bonds have had an average interest rate of approximately 4.8%. This is shown in Table 2.

Table 2 Recent Securitized Debt Issued by Electric Utilities			
Utility	**Issued**	**Maturity**	**Rate**
Duke Energy Carolinas	Sep-25	12 years	4.226%
	Sep-25	23 years	5.070%
	Sep-25	23 years	4.890%
	Nov-25	21 years	4.898%
Ameren UE	Dec-24	17 years	4.850%
Average		19 years	4.787%
Sources: Duke Energy Corporation, 2025 Form 10-K, Part II at 161; Ameren Missouri Securitization Funding I, LLC, Prospectus (Dec. 10, 2024).			

As Table 2 demonstrates, the interest rates vary depending on the maturity of the bonds. Shorter (10 to 15-year) maturity bonds have lower interest rates, and vice versa.

Q HOW DO THE INTEREST RATES ON SECURITIZED BONDS COMPARE WITH GEORGIA POWER COMPANY'S WEIGHTED AVERAGE COST OF CAPITAL?

A GPC's WACC is 7.82%. However, as previously stated, equity is fully taxable. Adjusting for income taxes, GPC's pre-tax WACC is 9.78%. Securitization is entirely debt financing. Thus, there would be no income taxes associated with securitization. Even after accounting for issuance costs, securitization financing would be less costly than traditional ratemaking. Further, securitization bonds can allow cost recovery to be extended beyond four years. This would result in less upward rate pressure than under traditional ratemaking.

Q IS SECURITIZATION WIDELY USED?

A Yes. Over 30 states have authorized electric utilities to use securitization to finance costs, including storm repairs, wildfire mitigation, and infrastructure damage. In the

Southeast alone, regulatory commissions in Florida, North Carolina, South Carolina, and West Virginia have authorized securitization of storm damage costs. Thus, securitization is a widely used regulatory tool. A summary of enacted legislation authorizing securitization is provided in **Exhibit JP-1**. As can be seen, securitization is widely used for recovering large expenditures, such as for damages caused by major storms and wildfires.

Q IS SECURITIZATION MORE COST-EFFECTIVE THAN TRADITIONAL RATEMAKING?

A Yes. For example, **Exhibit JP-2** quantifies the nominal and net present value (NPV) costs of recovering $700 million of past storm damage expenses using traditional ratemaking (the solid green and dashed black lines) and securitization (the orange bars). In this illustration, I removed the $101.3 million of annual storm damage expense and used GPC's proposed cost of capital, current state/federal income tax rates, and both accelerated (4-year) and nominal (8-year) amortization. Finally, I assumed a securitized interest rate of 4.3% and 2% issuance costs.

Q HOW DOES SECURITIZATION COMPARE WITH TRADITIONAL RATEMAKING?

A The vertical axis of **Exhibit JP-2** shows the annual revenue requirement. The higher the annual revenue requirement, the higher the rate impact. As can be seen, the annual revenue requirement for securitizing $700 million of regulatory assets is about $110 million per year over the 8-year average life of the securitization bonds. By contrast, the annual revenue requirements under traditional ratemaking (for either a four- or eight-year amortization period) would be higher than for securitization. Table 3 below compares the net cost to retail customers under those options.

Table 3 Net Cost to Retail Customers $700 Million Securitization Vs. Traditional Ratemaking ($ Millions)		
Scenario	**Nominal Cost**	**NPV Cost**
Traditional Ratemaking:		
4-Year Recovery	$933.4	$781.2
8-Year Recovery	$952.5	$708.1
Securitization	$858.9	$621.2

Thus, not only would securitization place less upward pressure on rates, it would be less costly for customers on both a nominal and NPV basis.

Q HAVE CREDIT RATING AGENCIES EXPRESSED ANY OPINIONS ON THE USE OF SECURITIZED FINANCING?

A Yes. For example, Moody's Investors Service opined that utility cost recovery through securitization is credit positive provided that it is not overused. A copy of Moody's assessment is provided in **Exhibit JP-3**. The key takeaways are:

- Securitization typically benefits utilities and their current customers because utilities receive an immediate source of cash and are ensured recovery of large costs in a timely manner, and because the cost of securitized debt is lower than the utility's all-in pre-tax cost of capital, it reduces the impact on customers' monthly bills.
- Utility cost recovery charge securitization has become more versatile and prevalent. It is now used to recover costs associated with storm restoration and environmental costs, utility restructuring, deferred fuel costs and renewable energy projects.
- State law and financing orders strongly protect securitization assets which ultimately protect the assets backing the bonds.
- Too much securitization can have negative consequences such as impacting customer bills substantially while hurting the utility's financial flexibility and ability to raise rates for other reasons.

Regulatory Research Associates, a subsidiary of Standard & Poor's, recently observed that there has been a rekindled interest in securitization, stating:

> ***Securitization allows utilities to recover sizable costs associated with impactful, and oftentimes unexpected, events upfront through the receipt of cash upon issuance of the bonds.*** This cash can be used to repay relatively expensive debt and equity financing traditionally used by utilities to initially absorb costs.
>
> ***A second reason why utilities choose to issue securitization bonds is that it modestly reduces regulatory risk.*** Using securitization is usually less impactful on the customer bill than alternate forms of financing that the utility may pursue, such as the issuance of equity and/or corporate debt, which may be more costly. This typically results in less customer complaints, increasing the likelihood that the utility can continue to manage its regulatory risks effectively.
>
> ***Furthermore, securitization often results in improved credit measures for the utility.*** Because securitization bonds are typically recovered through a dedicated source of revenue--in the form of an irrevocable, non-bypassable charge on the customer's bill with full recovery mandated by statute--S&P Global Ratings will often deconsolidate (i.e., remove) securitization debt from the utility's balance sheet. Accordingly, this improves a utility's financial measures and credit quality.[13]

Q IS SECURITIZATION AUTHORIZED UNDER THE CURRENT REGULATORY AND LEGAL ENVIRONMENT IN GEORGIA?

A No. It is my understanding that securitization would require both a change in law and regulations. Given that securitization is widely used and accepted in a majority of states, there is no reason why a securitization bill could not be introduced and enacted in the next legislative session.

Q WHAT IS THE PRIMARY BENEFIT OF SECURITIZATION?

A The primary benefit of securitization is affordability for both GPC and GPC's

[13] S&P Global Ratings, Ratings Direct, *The Rationale Behind U.S. Utility Securitization And Reasons For Recent Growth* at 2 (Mar. 4, 2024). Emphasis added.

customers; that is, it would immediately provide GPC a significant cash infusion while allowing base rates to be significantly lower than under traditional ratemaking. As securitization bonds would not be on GPC's balance sheet, securitization would not impact GPC's credit metrics or bond ratings.

Q WHAT ARE THE DOWNSIDES TO SECURITIZATION?

A Securitization charges are non-bypassable; that is, once securitization bonds are issued, they must be repaid through a dedicated non-bypassable fee on customer bills. Although the Commission can periodically adjust the fees to better track revenues with the required debt service (interest and principal payments), once the costs have been approved and the bonds have been issued, it cannot subsequently disallow cost recovery. Regardless of how they are financed, the presumption is that the securitized costs are both prudent and reasonable. Thus, in this respect, securitization would not be substantively different from traditional ratemaking.

Cost Recovery Mechanism

Q HOW SHOULD STORM DAMAGE EXPENSES BE RECOVERED?

A The Commission should require that all storm damage expenses be recovered through a separate SCR rider designed as a percentage of base revenues. This would be similar to the design of the Environmental Compliance Cost Recovery rate.

Q WHY SHOULD STORM DAMAGE EXPENSES BE RECOVERED IN A SEPARATE RIDER?

A A separate SCR rider would allow GPC to reduce the remaining storm damage balance based on the actual revenues collected while also allowing for periodic adjustments to reflect projected changes in base revenues due to sales growth.

Further, if securitization is authorized, the remaining regulatory asset balance can be easily determined prior to issuing the bonds. The annual storm damage accrual would continue to be recovered in the SCR rider. Thus, recovering storm damage costs through a separate SCR rider would provide a better mechanism to periodically adjust rates to ensure that cost recovery remains on track.

Nuclear PTCs

Q WHAT ARE THE NUCLEAR PRODUCTION TAX CREDITS?

A Section 13105 of the Inflation Reduction Act of 2022 created section 45U, the zero-emission nuclear power production credit, for electricity produced at a qualified nuclear power facility and sold by the taxpayer to an unrelated person in tax years beginning after December 31, 2023, and before January 1, 2033.

Q WHAT NUCLEAR POWER FACILITIES QUALIFY FOR THE INTERNAL REVENUE CODE SECTION 45U PRODUCTION TAX CREDITS?

A To qualify, a nuclear power facility must have been placed in service before August 16, 2022. This means that GPC's Hatch and Vogtle units 1 and 2 potentially qualify to earn section 45U tax credits.

Q HOW ARE PRODUCTION TAX CREDITS EARNED?

A PTCs are earned for every kilowatt-hour (kWh) generated by a qualified nuclear power facility.

Q DO PRODUCTION TAX CREDITS REDUCE A UTILITY'S COST TO SERVE?

A Yes. PTCs can be used to reduce the utility's tax liability. If the utility does not have a sufficient tax liability to utilize the PTCs, the utility can monetize the PTCs by selling them to third parties and use the proceeds to reduce costs.

Q HOW IS GEORGIA POWER COMPANY PROPOSING TO UTILIZE THE NUCLEAR PRODUCTION TAX CREDITS?

A GPC is proposing to amortize 25% of the total PTCs generated in 2024 and 2025 to partially offset and lower storm damage costs. GPC originally proposed to defer these PTCs to a regulatory liability and amortize them over a three-year period beginning on January 1, 2026. However, to address affordability, GPC decided to use the section 45U PTCs to benefit customers.[14]

Q SHOULD THE NUCLEAR PRODUCTION TAX CREDITS BE USED TO OFFSET STORM DAMAGE EXPENSE?

A No. Because extending the recovery period and using debt financing will more appropriately address affordability for GPC's customers, it is unnecessary to utilize the nuclear PTCs to offset storm damage expense. Instead, as discussed in my testimony in GPC's concurrent FCR-27 proceeding, these PTCs are more appropriately used to offset fuel expenses.

Q PLEASE EXPLAIN WHY NUCLEAR PRODUCTION TAX CREDITS ARE MORE APPROPRIATELY USED TO OFFSET FUEL EXPENSE.

A First, as previously stated, the nuclear PTCs are earned for every kWh generated by a qualified nuclear power facility. Thus, PTCs are clearly more similar to fuel costs — which vary based on the amount of kWh generated — than to storm damage costs.

[14] Direct Testimony of Cleve L. Fann, Josh J. Stallings, and Matthew S. Berrigan at 28-29.

Second, if PTCs are used to offset storm damage costs, the benefit would not be allocated properly. This is because, as previously stated, pursuant to the ARP Stipulation, storm damage costs are to be allocated and recovered on equal percentage of base revenues. However, the percentage of base revenues charged to the various customer classes is quite different from the corresponding percentage of recoverable fuel costs. The differences are illustrated in Table 4.

Table 4
Percentage of Base Revenues vs.
Percentages of Transmission/Distribution Costs
and Fuel Revenues By Customer Class

Customer Class	Base Revenues	T&D Costs	Fuel Revenues
Residential	48.35%	53.11%	36.85%
Commercial	36.53%	30.76%	37.24%
Industrial	13.13%	11.91%	24.95%
Lighting	1.98%	4.23%	0.95%
Total Retail	100.00%	100.00%	100.00%

Source: Docket No. 44820, Georgia Power Company Cost-of-Service Study for Test Year Ending July 31, 2023, Schedule 2.10, lines 1 and 2 and Schedule 2.20, lines 65 and 87.

Q PLEASE EXPLAIN TABLE 4.

A Table 4 quantifies the percentage of base revenues and the percentage of fuel revenues by customer class as presented in the class cost-of-service study filed by GPC in its 2022 rate case. Also shown are the percentages of transmission and distribution costs. The latter are a proxy for the storm damage costs, which primarily impact transmission and distribution facilities.

Q WHAT DO YOU CONCLUDE FROM TABLE 4?

A Table 4 demonstrates that Residential customers have a higher percentage of base revenues and transmission/distribution costs than fuel revenues, while the opposite is true for Industrial customers. This reflects the fact that Industrial customers typically operate at higher load factors than either Residential or Commercial customers, and Industrial customers take service at higher delivery voltages.

Thus, using the nuclear PTCs to offset the FCR-27 costs is consistent with cost causation because these tax credits are earned on a kWh basis, and fuel costs are also directly related to the amount of kWh generated. Further, there is no prohibition in the FCR rate that would prevent the return of nuclear PTCs if the Commission determines this treatment to be more appropriate.

Q WHAT DO YOU RECOMMEND?

A Nuclear PTCs are not needed to offset storm damage expenses to address affordability. Accordingly, the Commission should reject GPC's proposal to use the nuclear PTCs to offset storm damage expenses in this proceeding and adopt my proposal in the FCR-27 preceding to use these PTCs to instead offset recoverable fuel costs.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes.

APPENDIX A

Qualifications of Jeffry Pollock

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock. My business mailing address is 14323 South Outer 40 Rd., Suite 206N, Town and Country, Missouri 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Master's Degree in Business Administration from Washington University. I have also completed a Utility Finance and Accounting course.

Upon graduation in June 1975, I joined Drazen-Brubaker & Associates, Inc. (DBA). DBA was incorporated in 1972 assuming the utility rate and economic consulting activities of Drazen Associates, Inc., active since 1937. From April 1995 to November 2004, I was a managing principal at Brubaker & Associates (BAI).

During my career, I have been engaged in a wide range of consulting assignments including energy and regulatory matters in both the United States and several Canadian provinces. This includes preparing financial and economic studies of investor-owned, cooperative and municipal utilities on revenue requirements, cost of service and rate design, tariff review and analysis, conducting site evaluations, advising clients on electric restructuring issues, assisting clients to procure and manage electricity in both competitive and regulated markets, developing and issuing requests for proposals (RFPs), evaluating RFP responses and contract negotiation and developing and presenting seminars on electricity issues.

I have worked on various projects in 31 states and several Canadian provinces, and have testified before the Federal Energy Regulatory Commission, the Ontario Energy Board, and the state regulatory commissions of Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Utah, Virginia, Washington, Wisconsin and Wyoming. I have also appeared before the City of Austin Electric Utility Commission, the Board of Public Utilities of Kansas City, Kansas, the Board of Directors of the South Carolina Public Service Authority (a.k.a. Santee Cooper), the Bonneville Power Administration, Travis County (Texas) District Court, and the U.S. Federal District Court.

Q PLEASE DESCRIBE J. POLLOCK, INCORPORATED.

A J. Pollock assists clients to procure and manage energy in both regulated and competitive markets. The J. Pollock team also advises clients on energy and regulatory issues. Our clients include commercial, industrial and institutional energy consumers. J. Pollock is a registered broker and Class I aggregator in the State of Texas.

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UTILITY	ON BEHALF OF	DOCKET	TYPE	STATE / PROVINCE	SUBJECT	DATE
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	58819	Cross-Rebuttal	TX	Jurisdictional/Class Cost-of-Service Studies; Imputed Capacity; Power Factor Revenues; Class Revenue Allocation	4/14/2026
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	56765	Direct	GA	Fuel Cost Recovery	4/9/2026
TUCSON ELECTRIC POWER	Arizona Large Customer Group	E-01933A-25-0103	Surrebuttal	AZ	Class Cost-of-Service Study; System Reliability Benefit Mechanism; Purchased Power Fuel Adjustment Clause; Class Revenue Allocation	4/2/2026
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	58819	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	3/24/2026
ARIZONA PUBLIC SERVICE COMPANY	Arizona Large Customer Group and Freeport Minerals Corporation	E-01345A-25-0105	Direct	AZ	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	3/18/2026
TUCSON ELECTRIC POWER COMPANY	Arizona Large Customer Group and Freeport Minerals Corporation	E-01933A-25-0103	Direct	AZ	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	2/27/2026
WISCONSIN POWER AND LIGHT COMPANY	Wisconsin Industrial Energy Group	6680-TE-115	Surrebuttal	WI	Individual Contract Rate	2/24/2026
WISCONSIN ELECTRIC POWER COMPANY	Wisconsin Industrial Energy Group	6630-TE-113	Surrebuttal	WI	VLC / Bespoke Resources Tariffs and Agreements	2/10/2026
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-690-EA-25	Direct	WY	System Generation Factor	2/10/2026
WISCONSIN POWER AND LIGHT COMPANY	Wisconsin Industrial Energy Group	6680-TE-115	Direct	WI	Individual Contract Rate	2/3/2026
WISCONSIN ELECTRIC POWER COMPANY	Wisconsin Industrial Energy Group	6630-TE-113	Direct	WI	Very Large Customer and Bespoke Tariffs	1/7/2026
DUKE ENERGY CAROLINAS, LLC	South Carolina Utility Energy Users Committee	2025-172-E	Surrebuttal	SC	Revenue Apportionment; Rate Design; Class Cost-of-Service Study	11/3/2025
DUKE ENERGY PROGRESS, LLC	Nucor Steel-South Carolina	2025-154-E	Surrebuttal	SC	Treatment of Curtailable Load; Class Cost-of-Service Study; Pension Rider Design	10/17/2025

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DUKE ENERGY CAROLINAS, LLC	South Carolina Utility Energy Users Committee	2025-172-E	Direct	SC	Class Cost-of-Servie Study; Class Revenue Allocation; Rate Design; Pension Rider	10/6/2025
DUKE ENERGY PROGRESS, LLC	Nucor Steel-South Carolina	2025-154-E	Direct	SC	Class Cost-of-Service Study; Pension Rider; Service Regulations	9/16/2025
NORTHERN STATES POWER COMPANY	Wisconsin Industrial Energy Group	4220-UR-127	Surrebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	9/12/2025
NORTHERN STATES POWER COMPANY	Wisconsin Industrial Energy Group	4220-UR-127	Rebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	8/28/2025
NORTHERN STATES POWER COMPANY	Wisconsin Industrial Energy Group	4220-UR-127	Direct	WI	Class Cost-of-Service Studies; Class Revenue Allocation; Rate Design	8/8/2025
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	57791	Direct	TX	Fuel Factor Formula	7/25/2025
EL PASO ELECTRIC COMPANY	Texas Industrial Energy Consumers	57568	Cross-Rebuttal	TX	Class Cost-of-Service Study	7/2/2025
PEOPLES GAS SYSTEMS, INC	Florida Industrial Power Users Group	20250029-GU	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation	6/30/2025
FLORIDA POWER & LIGHT COMPANY	Florida Industrial Power Users Group	20250011-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Contribution in Aid of Construction; Large Load Contract Service	6/9/2025
EL PASO ELECTRIC COMPANY	Texas Industrial Energy Consumers	57568	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Imputed Capacity	6/4/2025
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	56693	Direct	TX	Competitive Generation Service	2/19/2025
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	56865	Direct	TX	Voluntary Renewable Energy Tariff Rate Design	1/21/2025
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	46120	Cross-Answering	IN	Class Cost-of-Service Study; Classification and Allocation of Production Plant; Classification of Distribution Plant; Class Revenue Allocation; Federal Tax Credits	1/16/2025

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ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-671-ER-24	Direct	WY	Class Cost-of-Service Study; Class Revenue Allocation; Rule 12 - Line Extensions; Rate Design; Insurance Cost Adjustment	12/20/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Surrebuttal	UT	Class Cost-of Service Study; Rate Design; Regulation No. 12	12/19/2024
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	46120	Direct	IN	Return on Equity; Class Cost-of-Service Study; Class Revenue Allocation	12/19/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Rebuttal	UT	Class Cost-of Service Study	11/26/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Direct	UT	Class Cost-of-Service Study; Class Revenue Allocation; Regulation No. 12; Rate Design; Insurance Cost Adjustment; Energy Balancing Mechanism	10/30/2024
WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Surrebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design; Microsoft Electric Rate; Rate Increase Presentation	9/20/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Surrebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design; Rate Increase Presentation	9/18/2024
WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Rebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	9/9/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Rebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	9/5/2024
WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Direct	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design	8/21/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Direct	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design	8/19/2024

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COMMONWEALTH EDISON COMPANY	Nucor Steel Kankakee, Inc.	24-0378	Direct	IL	Allocation of Beneficial Electrification Costs	7/24/2024
SOUTHERN PIONEER ELECTRIC COMPANY	Air Products and Chemicals, Inc. and National Beef Packaging Company, LLC	24-SPEE-540-TAR	Settlement	KS	Renewable Energy Program	7/8/2024
DOMINION ENERGY SOUTH CAROLINA, INC.	South Carolina Utility Energy Users Committee	2024-34-E	Surrebuttal	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	7/3/2024
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC	Texas Industrial Energy Consumers	56211	Direct	TX	Customer Load Study Charge; Transmission Line Extensions; Rider IRA	6/19/2024
DUKE ENERGY FLORIDA, LLC	Florida Industrial Power Users Group	20240025-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/11/2024
AEP TEXAS INC.	Texas Industrial Energy Consumers	56165	Cross-Rebuttal	TX	Distribution Load Dispatch Expense; Residential Class MDD; LCUST Allocation Factor; Call Center Cost Allocation; Wholesale Distribution Service for Battery Energy Storage System	6/7/2024
TAMPA ELECTRIC COMPANY	Florida Industrial Power Users Group	20240026-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/6/2024
DOMINION ENERGY SOUTH CAROLINA, INC.	South Carolina Utility Energy Users Committee	2024-34-E	Direct	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/5/2024
DUKE ENERGY FLORIDA, LLC	Florida Industrial Power Users Group	20240013-EG	Direct	FL	Curtailable General Service; Interruptible General Service	6/5/2024
AEP TEXAS INC.	Texas Industrial Energy Consumers	56165	Direct	TX	Transmission Operation and Maintenance Expense; Property Insurance Reserve; Class Cost-of-Service Study; Rate Design; Tariff Changes	5/16/2024
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	55155	Cross-Rebuttal	TX	Turk Remand Refund	5/10/2024
DUKE ENERGY CAROLINAS, LLC	South Carolina Energy Users Committee	2023-388-E	Surrebuttal	SC	Class Cost-of-Service Study; Revenue Allocation and Rate Design	4/29/2024

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SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	55155	Direct	TX	Turk Remand Refund	4/17/2024
DUKE ENERGY CAROLINAS, LLC	South Carolina Energy Users Committee	2023-388-E	Direct	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	4/8/2024
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	55378	Direct	GA	Deferred Accounting; Additional Sum; Specific Capacity Additions; Distributed Energy Resource and Demand Response Tariffs	2/15/2024
CENTRAL HUDSON GAS & ELECTRIC	Multiple Intervenors	23-E-0418 23-G-0419	Direct	NY	Electric and Gas Embedded Cost of Service Studies; Class Revenue Allocation; Electric Customer Charge	11/21/2023
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY	Industrial Customer Group	2023-154-E	Direct	SC	Integrated Resource Plan	9/22/2023
MIDAMERICAN ENERGY COMPANY	Google, LLC and Microsoft Corporation	RPU-2022-0001	Rehearing Rebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	9/8/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54634	Cross-Rebuttal	TX	Class Cost-of-Service Study; LGS-T Rate Design; Line Loss Study	8/25/2023
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-633-ER-23	Direct	WY	Retail Class Cost of Service and Rate Spread; Schedule Nos. 33, 46, 48T Rate Design; REC Tariff Proposal	8/14/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54634	Direct	TX	Revenue Requirement; Jurisdictional Cost Allocation; Class Cost-of-Service Study; Rate Design	8/4/2023
DUKE ENERGY CAROLINAS, LLC	Carolina Utility Customers Assocation, Inc.	E-7, Sub 1276	Direct	NC	Multi-Year Rate Plan; Class Revenue Allocation; Rate Design	7/19/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00286-UT	Direct	NM	Behind-the-Meter Generation; Class Cost-of-Service Study; Class Revenue Allocation; LGS-T Rate Design	4/21/2023
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44902	Direct	GA	FCR Rate; IFR Mechanism	4/14/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Stipulation Support	NM	Standby Service Rate Design	4/10/2023

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SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	53931	Direct	TX	Fuel Reconciliation	3/3/2023
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	45772	Cross-Answer	IN	Class Cost-of-Service Study; Class Revenue Allocation	2/16/2023
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Additional Testimony	IA	Application of Advance Ratemaking Principles to Wind Prime	2/13/2023
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	54234	Direct	TX	Interim Fuel Surcharge	1/24/2023
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	45772	Direct	IN	Class Cost-of-Service Study; Class Revenue Allocation	1/20/2023
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Surrebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	1/17/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54282	Direct	TX	Interm Net Surcharge for Under-Collected Fuel Costs	1/4/2023
DUKE ENERGY PROGRESS, LLC	Nucor Steel - South Carolina	2022-254-E	Surrebuttal	SC	Allocation Method for Production and Transmission Plant and Related Expenses	12/22/2022
NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Surrebuttal	MN	Cost Allocation; Sales True-Up	12/6/2022
DUKE ENERGY PROGRESS, LLC	Nucor Steel - South Carolina	2022-254-E	Direct	SC	Treatment of Curtailable Load; Allocation Methodology	12/1/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Rebuttal	NM	Standby Service Rate Design	11/22/2022
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Additional Direct & Rebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	11/21/2022
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	53719	Cross	TX	Retiring Plant Rate Rider	11/16/2022
NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Rebuttal	MN	Class Cost-of-Service Study; Distribution System Costs; Transmission System Costs; Class Revenue Allocation; C&I Demand Rate Design; Sales True-Up	11/8/2022

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ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	53719	Direct	TX	Depreciation Expense; HEB Backup Generators; Winter Storm URI; Class Cost-of-Service Study; Schedule IS; Schedule SMS	10/26/2022
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44280	Direct	GA	Alternate Rate Plan, Cost Recovery of Major Assets; Class Revenue Allocation; Other Tariff Terms and Conditions	10/20/2022
NEW YORK STATE ELECTRIC & GAS CORPORATION and ROCHESTER GAS AND ELECTRIC CORPORATION	Multiple Intervenors	22-E-0317 / 22-G-0318 22-E-0319 / 22-G-0320	Rebuttal	NY	COVID-19 Impact; Distribution Cost Allocation; Class Revenue Allocation; Firm Transportation Rate Design	10/18/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Direct	NM	Standby Service Rate Design	10/17/2022
NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Direct	MN	Class Cost-of-Service Study; Class Revenue Allocation; Multi-Year Rate Plan; Interim Rates; TOU Rate Design	10/3/2022
NEW YORK STATE ELECTRIC & GAS CORPORATION and ROCHESTER GAS AND ELECTRIC CORPORATION	Multiple Intervenors	22-E-0317 / 22-G-0318 22-E-0319 / 22-G-0320	Direct	NY	Electric and Gas Embedded Cost of Service Studies; Class Revenue Allocation; Rate Design	9/26/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00177-UT	Direct	NM	Renewable Portfolio Standard Incentive	9/26/2022
CENTERPOINT HOUSTON ELECTRIC LLC	Texas Industrial Energy Consumers	53442	Direct	TX	Mobile Generators	9/16/2022
ONCOR ELECTRIC DELIVERY COMPANY LLC	Texas Industrial Energy Consumers	53601	Cross-Rebuttal	TX	Class Cost-of-Service Study, Class Revenue Allocation; Distribution Energy Storage Resource	9/16/2022
ONCOR ELECTRIC DELIVERY COMPANY LLC	Texas Industrial Energy Consumers	53601	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design; Tariff Terms and Conditions	8/26/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	53034	Cross-Rebuttal	TX	Energy Loss Factors; Allocation of Eligible Fuel Expense; Allocation of Off-System Sales Margins	8/5/2022
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Direct	IA	Application of Advance Ratemaking Principles to Wind Prime	7/29/2022

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SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	53034	Direct	TX	Allocation of Eligible Fuel Expense; Allocation of Winter Storm Uri	7/6/2022
AUSTIN ENERGY	Texas Industrial Energy Consumers	None	Cross-Rebuttal	TX	Allocation of Production Plant Costs; Energy Efficiency Fee Allocation	7/1/2022
AUSTIN ENERGY	Texas Industrial Energy Consumers	None	Direct	TX	Revenue Requirement; Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/22/2022
DTE ELECTRIC COMPANY	Gerdau MacSteel, Inc.	U-20836	Direct	MI	Interruptible Supply Rider No. 10	5/19/2022
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44160	Direct	GA	CARES Program; Capacity Expansion Plan; Cost Recovery of Retired Plant; Additional Sum	5/6/2022
EL PASO ELECTRIC COMPANY	Freeport-McMoRan, Inc.	52195	Cross-Rebuttal	TX	Rate 38; Class Cost-of-Service Study; Revenue Allocation	11/19/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Supplemental	NM	Responding to Seventh Bench Request Order (Amended testimony filed on 11/15)	11/12/2021
EL PASO ELECTRIC COMPANY	Freeport-McMoRan, Inc.	52195	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Rate 15 Design	10/22/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Cross-Rebuttal	TX	Cost Allocation; Production Tax Credits; Radial Lines; Load Dispatching Expenses; Uncollectible Expense; Class Revenue Allocation; LGS-T Rate Design	9/14/2021
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	43838	Direct	GA	Vogtle Unit 3 Rate Increase	9/9/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	21-00172-UT	Direct	NM	RPS Financial Incentive	9/3/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; LGS-T Rate Design	8/13/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Direct	TX	Schedule 11 Expenses; Jurisdictional Cost Allocation; Abandoned Generation Assets	8/13/2021
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	51997	Direct	TX	Storm Restoration Cost Allocation and Rate Design	8/6/2021

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PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Surrebuttal	PA	Class Cost-of-Service Study; Revenue Allocation	8/5/2021
PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Rebuttal	PA	Class Cost-of-Service Study; Revenue Allocation; Universal Service Costs	7/22/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Supplemental	NM	Settlement Support of Class Cost-of-Service Study; Rate Desgin; Revenue Requirement.	7/1/2021
PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Direct	PA	Class Cost-of-Service Study; Revenue Allocation	6/28/2021
DTE GAS COMPANY	Association of Businesses Advocating Tariff Equity	U-20940	Rebuttal	MI	Allocation of Uncollectible Expense	6/23/2021
FLORIDA POWER & LIGHT COMPANY	Florida Industrial Power Users Group	20210015-EI	Direct	FL	Four-Year Rate Plan; Reserve Surplus; Solar Base Rate Adjustments; Class Cost-of-Service Study; Class Revenue Allocation; CILC/CDR Credits	6/21/2021
ENTERGY ARKANSAS, LLC	Arkansas Electric Energy Consumers, Inc.	20-067-U	Surrebuttal	AR	Certificate of Environmental Compatibility and Public Need	6/17/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Rebuttal	NM	Rate Design	6/9/2021
DTE GAS COMPANY	Association of Businesses Advocating Tariff Equity	U-20940	Direct	MI	Class Cost-of-Service Study; Rate Design	6/3/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	51415	Supplemental Direct	TX	Retail Behind-The-Meter-Generation; Class Cost of Service Study; Class Revenue Allocation; LGS-T Rate Design; Time-of-Use Fuel Rate	5/17/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Direct	NM	Class Cost-of-Service Study; Class Revenue Allocation, LGS-T Rate Design, TOU Fuel Charge	5/17/2021
ENTERGY ARKANSAS, LLC	Arkansas Electric Energy Consumers, Inc.	20-067-U	Direct	AR	Certificate of Environmental Compatibility and Public Need	5/6/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51625	Direct	TX	Fuel Factor Formula; Time Differentiated Costs; Time-of-Use Fuel Factor	4/5/2021

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SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	51415	Direct	TX	ATC Tracker, Behind-The-Meter Generation; Class Cost-of-Service Study; Class Revenue Allocation; Large Lighting and Power Rate Design; Synchronous Self-Generation Load Charge	3/31/2021
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	51215	Direct	TX	Certificate of Convenience and Necessity for the Liberty County Solar Facility	3/5/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	50997	Cross Rebuttal	TX	Rate Case Expenses	1/28/2021
PPL ELECTRIC UTILITIES CORPORATION	PPL Industrial Customer Alliance	M-2020-3020824	Supplemental	PA	Energy Efficiency and Conservation Plan	1/27/2021
CENTRAL HUDSON GAS & ELECTRIC	Multiple Intervenors	20-E-0428 / 20-G-0429	Rebuttal	NY	Distribution cost classification; revised Electric Embedded Cost-of-Service Study; revised Distribution Mains Study	1/22/2021
MIDAMERICAN ENERGY COMPANY	Tech Customers	EPB-2020-0156	Reply	IA	Emissions Plan	1/21/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	50997	Direct	TX	Disallowance of Unreasonable Mine Development Costs; Amortization of Mine Closure Costs; Imputed Capacity	1/7/2021

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SECURITIZATION: A VALUABLE TOOL FOR COST RECOVERY OPPORTUNITIES OUTSIDE A NORMAL RATE CASE

In recent years, a flurry of legislative activity has addressed utility securitization. Seventeen states have passed legislation offering securitization options to their electric utilities in the last decade, and several other states have proposed similar legislation. Securitization, while not a new concept, has been a successful tool for utilities to improve cost recovery while saving customers money on their electric bills. In this paper, we analyze trends in securitization legislation and detail the options that may work for your utility.

What Is Securitization?

When a utility incurs a large or unexpected but prudent expenditure, it typically seeks recovery of that expenditure through a rate case. This creates regulatory lag, which is not ideal for the utility's financials. Further, it is not ideal for customers, as delays in cost recovery can increase the cost burden for customers due to regulatory assets accruing carrying charges. These charges are often calculated at the utility's cost of debt.

Securitization can help solve these problems. Under securitization legislation, a utility usually issues a bond—often backed by state government—for the amount needed to cover the expenditure. This bond issuance allows the utility to receive the cash inflow all at once, instead of through the typical process in rate case proceedings. In a traditional rate case, utilities attempt to recover the costs of asset construction after the fact, with cost recovery spread over the useful life of the asset. With securitized property, the utility receives the cash from the bond immediately, along with the right to recover the bond's principal and interest from customers.

The cost of securitization is typically lower than the utility's typical cost of debt. Securitization replaces the utility's usual rate of return on capital, including cost of equity, and replaces it with the interest rate of

the bond. The difference between these two can be substantial, with rates of return that can be two to five times higher than the secured bond's interest rate. This allows the utility to lower customers' bills, or the savings can be reinvested in additional or expanded programs.

Is Securitization the Perfect Solution?

Securitization has its drawbacks. It has seen pushback in legislatures for letting utilities "off the hook" for bad investments, especially when securitizing fossil-fueled plants. Some investors also do not like to securitize assets that were previously collecting a substantial return. As Brad Viator, former vice president of external affairs for the Edison Electric Institute, said, "Securitizing the closure of those facilities eliminates or reduces the return on equity, meaning the utilities are not making the money they were promised when they built the facility."[1] It is not a tool that works for all asset recovery situations.

However, when properly used, securitization is a win for all parties involved. Utility shareholders see an immediate infusion of cash that will be used over time for the construction of additional assets and capital projects, customers see lower bills, and advocates often see greenlighting of projects that might not have occurred under the traditional process.



Restructuring: The 90s Securitization Boon

Securitization started being widely used by utilities in the mid-to-late 1990s, when many states began to undergo utility restructuring. Under restructuring and the subsequent introduction of customer choice, electricity prices and demand per generation facility were expected to fall more than production costs. This lowered the earnings of the generation assets owned (or previously owned) by the utility and subsequently the assets' value as well, leading to stranded assets or unrecoverable costs for the utilities. Many states in the Mid-Atlantic and New England that restructured in this period enacted legislation allowing utilities to securitize these stranded costs and/or investments. Between 1996 and 2002, Connecticut, Massachusetts, Michigan, New Hampshire, New Jersey, Pennsylvania, and Rhode Island all passed legislation to securitize either stranded assets or deferred supply charges and retired debt and equity due to restructuring.

The results of restructuring did not end at the turn of the millennium. Several states phased in or deferred changes in energy prices under restructuring, allowing time for a supply market to develop in their regions. In Maryland, for example, residential customers faced a 72% increase in their electric supply charge in

1 Brad Viator, "Senate Bill 245: Comprehensive Securitization: A Tool to Prevent Stranded Assets," March 8, 2023.

2006 due to the restructuring legislation. An emergency session of the Maryland General Assembly deferred this rate increase by phasing it in over several years. This legislation also allowed for costs of this deferment to be securitized.

The Fall of Coal: Securitization in the 2010s

The 2010s saw a dramatic change in the fuel diversity of generating plants in the United States.[2] Due to cheap imports of natural gas and the increased supply from fracking, natural gas prices plummeted. Once considered one of the more expensive fuel sources, used almost completely for peaking plants, natural gas quickly became the most viable fuel source to handle base load. This drop in the price of natural gas came while state and federal legislation enacted stricter emission standards for power plants, which impacted coal plants the most. As a result, many coal plants throughout the United States were selected for early retirement. Between 2010 and 2019, seven states (Colorado, Florida, Louisiana, Mississippi, Montana, New Mexico, and Wisconsin) enacted legislation that securitized the retirement and abandonment costs of these plants, or the costs associated with plant improvements to comply with stricter emission standards. This legislation lowered the cost to customers of switching to cheaper and cleaner fuel sources.

Storm Recovery: The Early 2020s



A series of weather and other related major events in the early 2020s saw utilities incur unexpectedly large costs that required recovery, often in the form of increased rates to customers. Whether the result of unexpected severe winter storms in Texas and Oklahoma, wildfires in the west, or the COVID-19 pandemic, some utilities suddenly faced billions of dollars of expenditures to cover fuel purchases, fire mitigation, or storm recovery that needed to be recovered from customers. While such major event expenses used to be recovered through special riders using the utility's typical cost of debt, the sheer dollar amounts led many states (including Arizona, Arkansas, California, Kentucky, Missouri, Oklahoma, Oregon, South Carolina, Texas, and West Virginia) to enact securitization legislation. Securitizing these costs spread out the recovery time, mitigating "rate shock" to customers and alleviating working capital pressure on utility balance sheets to preserve credit ratings. In New York, to proactively save customers money and decrease the impact of severe weather events, legislation was enacted to securitize the cost of improving system resiliency.

2 Sonal Patel, "Why the 2010s Were a Definitive Decade for Power," *POWER Magazine*, January 1, 2020.

What Is the Future of Securitization?

Securitization appears to once again be gaining momentum. More than 30 states have enacted securitization legislation. In 2023 alone, four new states have added or expanded securitization legislation, often for reasons different from historic trends, and Arizona passed securitization legislation in 2025. Virginia and West Virginia now allow fuel costs to be recovered through securitization, joining Idaho, which passed legislation to that effect back in 2001. In Oregon, utilities may now securitize the cost of energy conservation programs and capital investment projects that will affect the affordability of residential bills. Indeed, New York's resiliency legislation in 2022 shows that securitization of new types of projects, assets, and costs will likely be allowed as time moves on.

This is not to say that securitization will be given free rein. Jurisdictions still see the need for prudence regarding securitization. For example, the wildfires that devastated the island of Maui in Hawaii in August 2023 seemed a prime candidate for the use of securitization. To rebuild the destroyed electric infrastructure, Hawaiian Electric would need a large amount of capital for immediate investment. Additionally, customers recovering from the fire would benefit from the reduced financing costs offered by securitization. In January 2024, SB2922 was introduced, a bill that would have allowed recovery of costs and expenses caused by wildfires through securitization. However, additional amendments to the bill that would have reorganized Hawaiian Electric, separating its generation and grid functions, along with worries that this was a bailout for a company that had some liability in the wildfires, ultimately killed the bill.

At MCR, we recommend performing an analysis of securitization legislation to determine if it can be implemented at your company. Our summary of securitization legislation (below) provides a good starting point. If securitization is available, it is an important tool for success in moving forward with projects that have high up-front costs. For utilities in states where securitization is not an option, we recommend working with your state legislature to educate them on the benefits of securitization of large, unexpected expenditures to create a win for customers and the utility.

SUMMARY OF SECURITIZATION LEGISLATION

All Legislation

See later tables for breakdown of legislation by category. Some legislation allows eligible costs in multiple categories.

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Arkansas	Act 641	Storm Recovery Costs	2021
Arizona	HB 2679	Major Event Recovery and Transition Asset Retirement Costs	2025
California	AB 913	COVID-19 and Wildfire Recovery	2020
Colorado	SB 19-236	Pretax Electric Generating Facility Retirement	2019
Connecticut	SB 484	Restructuring Stranded Costs	2010

continued »

Florida	Statute 366.95	Nuclear Generating Facility Retirement or Abandonment	2016
Hawaii	Act 211	Green Infrastructure Costs	2013
Idaho	Statute 61.15	Energy Costs	2001
Indiana	SB 386	Electric Generating Facility Retirement	2021
Kansas	HB 2072	Pretax Electric Generating Facility Retirement	2021
Kentucky	SB 192	Retired Generation Facilities and Other Large-Scale Deferred Costs	2023
Louisiana	RS 45.1251	Cancelled Construction of Electric Generating, Transmission, or Large Capital Investment Facilities	2010
Maryland	SB 1	Standard Offer Service Deferment	2006
Massachusetts	Statute XXII.164.1G	Restructuring Stranded Costs	1996
Michigan	Statute 460.10	Regulatory Assets, Restructuring Stranded Costs, Retiring of Existing Debt and Equity	2000
Mississippi	HB 1134	Clean Coal Generation Construction	2013
Missouri	SB 202	Generation Facility Retirement and Extraordinary Costs That Would Cause Extreme Customer Rate Impacts Under Normal Ratemaking	2021
Montana	Energy Impact Assistance Act	Pretax Electric Generating Facility Retirement and Infrastructure Costs	2019
New Hampshire	RSA 369-B	Restructuring Stranded Costs	2000
New Jersey	SB 869	Deferred Supply Charge Balances	2002
New Mexico	Energy Transition Act	Generation Facility Abandonment Costs	2019
New York	SB S6455C	System Resiliency Costs	2022
North Carolina	HB 951	Coal Generating Facility Early Retirement	2021
Ohio	Section 4928.143	Phased-In Standard Offer Service Prices	2012
Oklahoma	SB 1050	Severe Winter Weather Costs (Including Fuel)	2021
Oregon	HB 3143	Severe Weather, Wildfire, and Pandemic Losses and Energy Conservation Programs	2023
Oregon	HB 3179	Large Capital Investments	2025
Pennsylvania	Statute 66.2808	Restructuring Stranded Costs	1996
Rhode Island	Statute 39-1-45	Restructuring Stranded Costs	1997
South Carolina	S1077	Storm Costs	2022
Texas	HB 4492	Winter Storm Uri Costs	2021
Virginia	SB 1265	Deferred Fuel Costs	2023
West Virginia	HB 3308	Environmental Compliance Costs, Fuel Costs, Storm Recovery Costs, Undepreciated Generation Plant Balances	2023
Wisconsin	Statute 196.027	Pollution Control Investments	2012

Major Event Recovery Costs

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Arkansas	Act 641	Storm Recovery Costs	2021
Arizona	HB 2679	Major Event Recovery and Transition Asset Retirement Costs	2025
California	AB 913	COVID-19 and Wildfire Recovery	2020

continued »

Kentucky	SB 192	Retired Generation Facilities and Other Large-Scale Deferred Costs	2023
Missouri	SB 202	Generation Facility Retirement and Extraordinary Costs That Would Cause Extreme Customer Rate Impacts Under Normal Ratemaking	2021
Oklahoma	SB 1050	Severe Winter Weather Costs (Including Fuel)	2021
Oregon	HB 3143	Severe Weather, Wildfire, and Pandemic Losses and Energy Conservation Programs	2023
South Carolina	S1077	Storm Costs	2022
Texas	HB 4492	Winter Storm Uri Costs	2021
West Virginia	HB 3308	Environmental Compliance Costs, Fuel Costs, Storm Recovery Costs, Undepreciated Generation Plant Balances	2023

Generation Retirement and Abandonment Costs

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Arizona	HB 2679	Major Event Recovery and Transition Asset Retirement Costs	2025
Colorado	SB 19-236	Pretax Electric Generating Facility Retirement	2019
Florida	Statute 366.95	Nuclear Generating Facility Retirement or Abandonment	2016
Indiana	SB 386	Electric Generating Facility Retirement	2021
Kansas	HB 2072	Pretax Electric Generating Facility Retirement	2021
Kentucky	SB 192	Retired Generation Facilities and Other Large-Scale Deferred Costs	2023
Louisiana	RS 45.1251	Cancelled Construction of Electric Generating, Transmission, or Large Capital Investment Facilities	2010
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North Carolina	HB 951	Coal Generating Facility Early Retirement	2021
West Virginia	HB 3308	Environmental Compliance Costs, Fuel Costs, Storm Recovery Costs, Undepreciated Generation Plant Balances	2023

Restructuring Costs

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Connecticut	SB 484	Restructuring Stranded Costs	2010
Maryland	SB 1	Standard Offer Service Deferment	2006
Massachusetts	Statute XXII.164.1G	Restructuring Stranded Costs	1996
Michigan	Statute 460.10	Regulatory Assets, Restructuring Stranded Costs, Retiring of Existing Debt and Equity	2000
New Hampshire	RSA 369-B	Restructuring Stranded Costs	2000
New Jersey	SB 869	Deferred Supply Charge Balances	2002

continued »

Ohio	Section 4928.143	Phased-In Standard Offer Service Prices	2012
Pennsylvania	Statute 66.2808	Restructuring Stranded Costs	1996
Rhode Island	Statute 39-1-45	Restructuring Stranded Costs	1997

Energy and Fuel Costs

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Idaho	Statute 61.15	Energy Costs	2001
Oklahoma	SB 1050	Severe Winter Weather Costs (Including Fuel)	2021
Virginia	SB 1265	Deferred Fuel Costs	2023
West Virginia	HB 3308	Environmental Compliance Costs, Fuel Costs, Storm Recovery Costs, Undepreciated Generation Plant Balances	2023

Construction, Program, and Infrastructure Costs

STATE	BILL NUMBER	ELIGIBLE COSTS	EFFECTIVE YEAR
Kentucky	SB 192	Retired Generation Facilities and Other Large-Scale Deferred Costs	2023
Michigan	Statute 460.10	Regulatory Assets, Restructuring Stranded Costs, Retiring of Existing Debt and Equity	2000
Mississippi	HB 1134	Clean Coal Generation Construction	2013
Montana	Energy Impact Assistance Act	Pretax Electric Generating Facility Retirement and Infrastructure Costs	2019
New York	SB S6455C	System Resiliency Costs	2022
Oregon	HB 3143	Severe Weather, Wildfire, and Pandemic Losses and Energy Conservation Programs	2023
Oregon	HB 3179	Large Capital Investments	2025
West Virginia	HB 3308	Environmental Compliance Costs, Fuel Costs, Storm Recovery Costs, Undepreciated Generation Plant Balances	2023
Wisconsin	Statute 196.027	Pollution Control Investments	2012

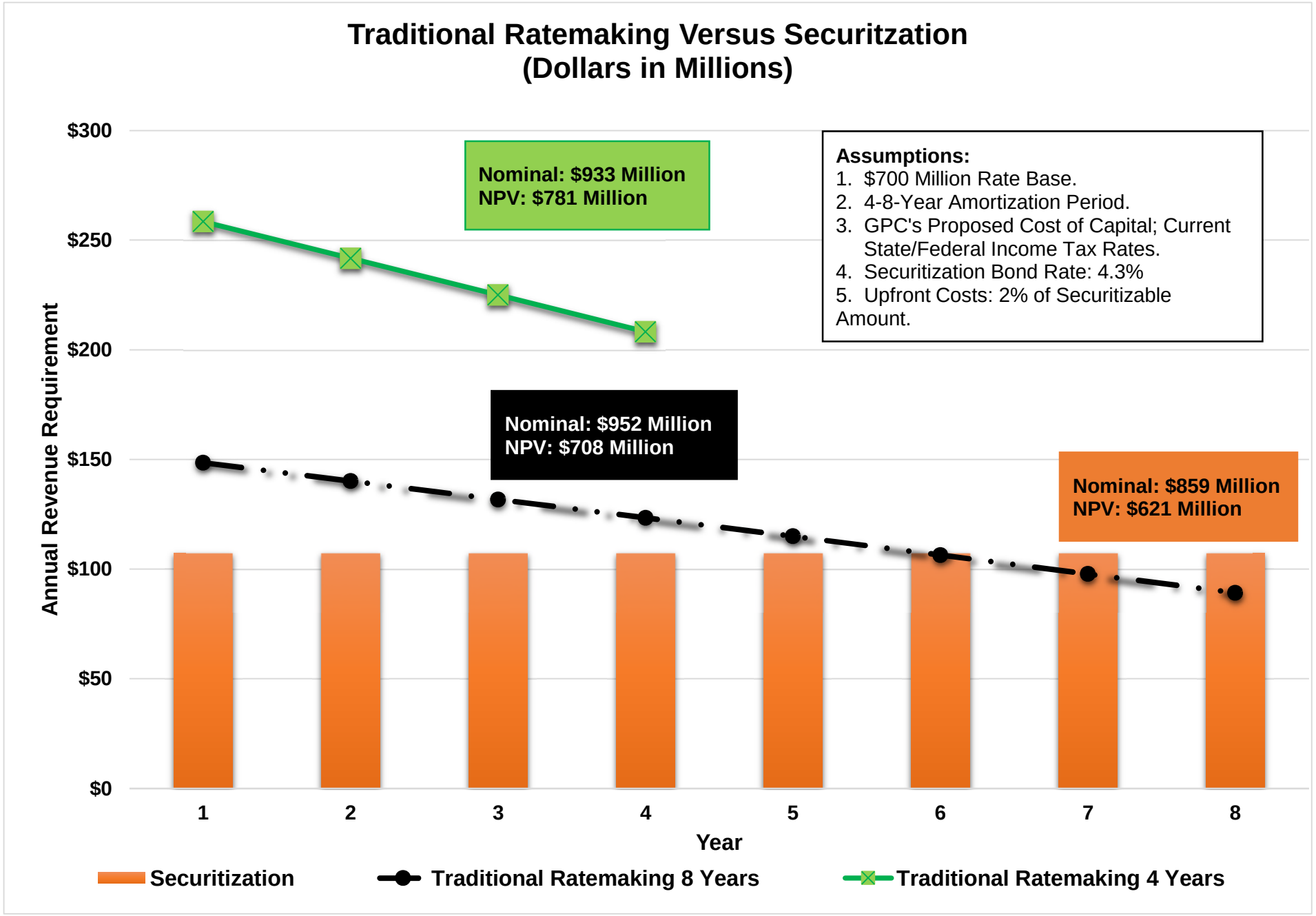
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Traditional Ratemaking Versus Securitzation
(Dollars in Millions)
$300
$250
$200
$150
$100
$50
$0
Annual Revenue Requirement
Nominal: $933 Million
NPV: $781 Million
Nominal: $952 Million
NPV: $708 Million
Nominal: $859 Million
NPV: $621 Million
Assumptions:
1. $700 Million Rate Base.
2. 4-8-Year Amortization Period.
3. GPC's Proposed Cost of Capital; Current State/Federal Income Tax Rates.
4. Securitization Bond Rate: 4.3%
5. Upfront Costs: 2% of Securitizable Amount.
1
2
3
4
5
6
7
8
Year
Securitization
Traditional Ratemaking 8 Years
Traditional Ratemaking 4 Years

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Regulated utilities - US

Utility cost recovery through securitization is credit positive

Utility cost recovery charge (UCRC) securitization, a financing technique used to recover stranded costs, storm costs and other expenses, can be a credit positive tool for regulated utilities. UCRC securitization, whereby utilities issue bonds with lower financing costs that are paid back through a special customer charge, is typically underpinned by state legislation and in recent years has become more versatile and widespread. The ability to use securitization as a tool to recover, often significant, costs related to large or unforeseen developments allows utilities to avoid potentially credit negative events. However, though the mechanism typically benefits utilities and their customers, too much securitization can have negative consequences.

» **Securitization typically benefits utilities and their current customers.** Utilities benefit because they receive an immediate source of cash from the securitization proceeds and are ensured recovery of large costs in a timely manner that may, otherwise, be recovered over a lengthy period of time or denied recovery altogether. Current utility customers benefit because the cost of the securitized debt is lower than the utility's cost of debt, which reduces the impact on their monthly bills.

» **UCRC securitization has become more versatile and prevalent.** Utility securitization became widespread for the recovery of stranded costs following deregulation of the sector in the late 1990s. It is now used to recover costs associated with storm restoration and environmental costs, utility restructuring, deferred fuel costs and renewable energy projects.

» **State law and financing orders strongly protect securitization assets.** There are three major components of a UCRC securitization—state legislation, a financing order and a true-up mechanism—which ultimately protect the assets backing the bonds.

» **Too much securitization can have negative consequences.** The use of securitization removes the utility's opportunity to include the corresponding asset in its rate base and the ability to earn a return on that asset. A significant amount of securitization debt could impact customer bills substantially while hurting the utility's financial flexibility and ability to raise rates for other reasons, such as to recover future costs and investments.

Securitization typically benefits utilities and their current customers

UCRC securitization was widely used after the deregulation of the utility sector in the late 1990s as a way to finance so-called stranded costs—the shortfall between the market value of utilities' generation assets and their book value when certain states switched to competitive electric supply markets and utilities sold their generation assets. In UCRC securitization, utilities issue bonds with lower financing costs that are paid back through a discrete customer charge. We typically view use of the technique as credit positive for utilities.

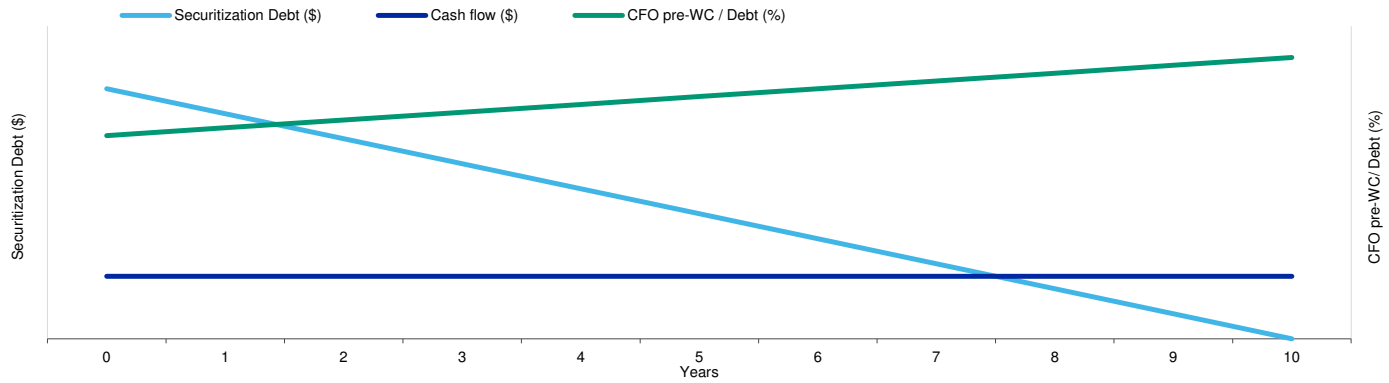
A utility benefits from the securitization because it receives an immediate source of cash. The ability to use securitization generally means the utility is allowed to recover all or most of the costs in question in a timely manner. The ability to use securitization as a tool to recover costs related to large or unforeseen developments allows utilities to avoid potentially credit negative events. The utility's ratepayers benefit because customer rates are lower than if the securitization was not utilized and in many cases avert the need for a substantial rate increase. Under state legislation, the utility must show that the savings to its customers on a net present value basis will be higher than they would have been without securitization.

The savings result from the cost of the securitized debt being lower than the utility's unsecuritized cost of debt and much lower than its all-in cost of capital, which reduces the revenue requirement associated with the cost recovery. The special surcharges involved are also spread out over a long period, typically corresponding to the maturity of the securitization bonds. This eases the impact on customer bills when compared with requesting cost recovery from customers through a one-time payment.

Exhibit 1 shows an illustrative example of the potential impact over time on a utility's ratio of cash flow from operations pre-working capital changes (CFO pre-W/C) to debt, all else being equal. Depending on the size of the securitization debt as a proportion of total debt, the impact on a utility's financial metrics can vary. If the securitization is a significant component of total debt then a utility's ratio of CFO pre-W/C to debt could be severely negatively affected.

Exhibit 1

Illustrative example of the impact UCRC securitization can have on a utility's ratio of CFO pre-W/C to debt



Source: Moody's Investors Service

In the presentation of securitization debt in our published financial ratios, we make our own assessment of the appropriate credit representation, but in most cases we follow the accounting in audited statements under US Generally Accepted Accounting Principles (GAAP), which in turn considers the terms of enabling legislation. As a result, accounting treatment may vary. In most cases, utilities have been required to consolidate securitization debt under GAAP, even though it is technically non-recourse.

We typically view securitization debt of utilities as on-credit debt, in part because the rates associated with it reduce the utility's headroom to increase rates for other purposes while keeping all-in rates affordable to customers. Thus, where accounting treatment is off balance sheet, we seek to adjust the company's financial ratios by including the securitization debt and related revenues in our analysis. Where the securitized debt is on balance sheet, our credit analysis also considers the significance of financial ratios that

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

exclude securitization debt and related revenues to ensure that the benefits of securitization are not ignored. Since securitization debt amortizes mortgage-style, including it makes financial ratios look worse in early years, when most of the revenue collected goes to pay interest, and better in later years, when most of the revenue collected goes to pay principal.

CenterPoint Energy Houston Electric has a long history of issuing securitization bonds

In 1999, the Texas legislature adopted the Texas Electric Choice Plan, under which integrated utilities operating within the Electric Reliability Council of Texas, Inc. (ERCOT, Aa3 stable) were required to unbundle their operations into separate retail sales, power generation, and transmission and distribution companies. The legislation provided for a transition period and a true-up mechanism for the utilities to recover stranded and certain other costs resulting from the transition. Those costs were recoverable, after approval by the Public Utility Commission of Texas (PUCT), either through the issuance of securitization bonds or through the implementation of a competition transition charge as a rider to the utility's tariff.

In the early 2000s, CenterPoint Energy Houston Electric, LLC (CEHE, A3 stable) restructured its business in accordance with the new law and its generating stations were sold to third parties. Over the years that followed, CEHE has worked with regulators to obtain recovery of most its stranded assets and associated costs through the use of securitization bonds and other regulatory mechanisms.

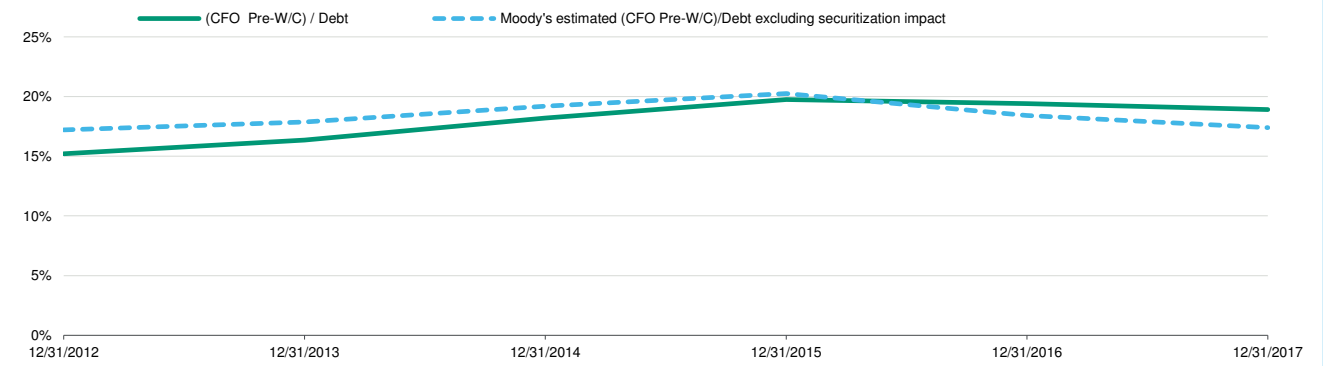
In October 2011, PUCT approved a final order that allowed CEHE to recover an additional $1.695 billion of stranded costs through the use of securitization bonds. In January 2012, CEHE created a new special purpose subsidiary, CenterPoint Energy Transition Bond Company IV, LLC, which issued $1.695 billion of securitization bonds in three tranches with interest rates ranging from 0.9012% to 3.0282% and final maturity dates ranging from April 15, 2018 to October 15, 2025. The securitization bonds will be repaid over time through a charge imposed on customers in CEHE's service territory.

The overall time-weighted interest rate of approximately 2.5% for the securitization bonds was substantially lower than the average rate on CEHE's unsecuritized debt of about 7.66% at that time. The PUCT estimated that the reduced interest charges from the securitization of the stranded costs resulted in savings for CEHE's customers of more than $700 million over the life of the bonds.

Exhibit 2 shows our estimate of the impact on CEHE's ratio of CFO pre-W/C to debt from 2012 through 2017 due to the impact of the $1.695 billion securitization debt. We estimate that the securitization debt had at most a 200-basis-point impact on CEHE's ratio of CFO pre-W/C to debt either positive or negative, depending on the year.

Exhibit 2

How CEHE's ratio of CFO pre-W/C to debt was impacted by securitization debt from 2012 through 2017



Source: company's filings, Moody's Investors Service

UCRC securitization has become more versatile and widespread

UCRC bonds were created after the deregulation of utilities in the late 1990s as a way to finance stranded costs. To date, more than 20 states have used this model to recover not only stranded costs but also costs associated with storm recovery and to a lesser degree environmental restoration, utility restructuring, deferred fuel costs and renewable energy projects.

In June 2005, for example, Section 366.8260 of the Florida Statutes was enacted through Senate Bill 1366, allowing the Florida Public Service Commission to authorize the state's utilities to securitize storm recovery costs. Following Hurricanes Katrina, Rita and Wilma in 2005, Arkansas, Louisiana, Mississippi and Texas joined Florida by passing special legislation giving utilities operating in their jurisdictions the option of utilizing securitization for recovery of storm costs. Recently in California, legislators are considering an amended version of Assembly Bill 33 which, as amended, would allow securitization to be used for prudently incurred costs arising from wildfires, a credit positive step for utilities dealing with potentially significant wildfire-related liabilities. Exhibit 3 shows a list of securitizations completed by utilities in recent years.

In each case, with the exception of the Entergy New Orleans LLC's (ENO, Ba1 stable) bond issuance (Aa1 (sf)) in 2015, we rated the securitization bonds Aaa (sf) owing to the strength of the state legislation, including the state's non-impairment pledge, the irrevocable financing order typically from the state public utility commission, credit enhancement consisting of a statutory uncapped true-up adjustment mechanism, the manageable size of the cost recovery charge and the remote likelihood of a successful legal, political or regulatory challenge, among other factors.

The Aa1 (sf) rating on ENO's securitization bond issuance, which is one-notch lower than the typical Aaa (sf) rating, reflects the relative small size and concentration of the ratepayer base from whom the storm recovery charge will be collected. The bonds are exposed to the risk of declines in the rate payer base in the service area of ENO in case of severe events, such as anther severe hurricane.

Exhibit 3

Moody's rated UCRC securitizations issued since 2012

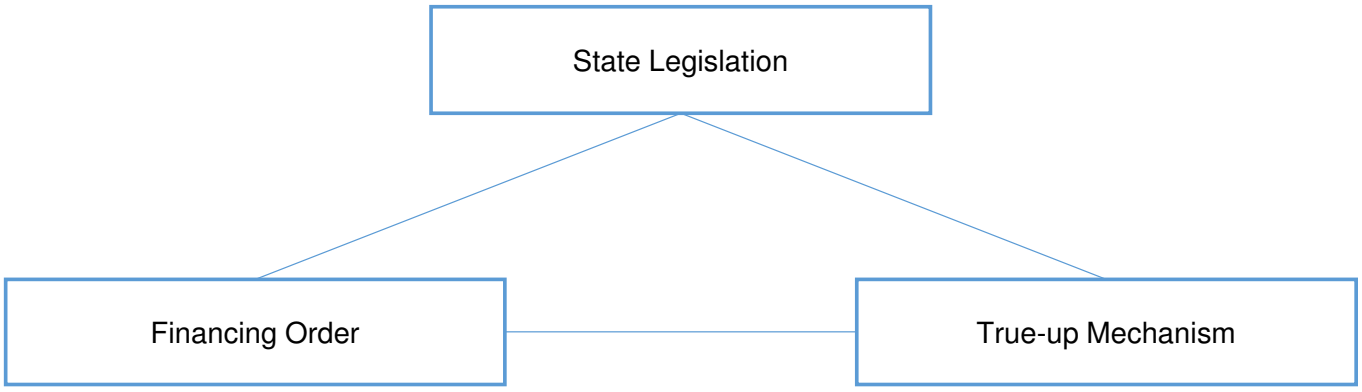
Deal Name	Servicer	Issuance ($ millions)	Year Completed	Rating (sf)	State
PSNH Funding LLC 3, Series 2018-1	Public Service Co. of New Hampshire	$636	2018	Aaa	New Hampshire
Utility Debt Securitization Authority Restructuring Bonds, Series 2017	Long Island Power Authority	369	2017	Aaa	New York
Utility Debt Securitization Authority Restructuring Bonds, Series 2016B	Long Island Power Authority	469	2016	Aaa	New York
Duke Energy Florida Project Finance, LLC	Duke Energy Florida LLC	1294	2016	Aaa	Florida
Utility Debt Securitization Authority Restructuring Bonds, Series 2016A	Long Island Power Authority	637	2016	Aaa	New York
Utility Debt Securitization Authority Restructuring Bonds, Series 2015	Long Island Power Authority	1002	2015	Aaa	New York
Entergy New Orleans Storm Recovery Funding I, L.L.C.	Entergy New Orleans LLC	99	2015	Aa1	Louisiana
State of Hawaii Department of Business, Economic Development, and Tourism - Green Energy Market Securitization Bonds, 2014 Ser. A	Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited	150	2014	Aaa	Hawaii
Louisiana Local Government Environmental Facilities and Community Development Authority - System Restoration Bonds (Louisiana Utilities Restoration Corporation Project/EGSL), Ser. 2014 (Federally Taxable)	Entergy Gulf States Louisiana, L.L.C.	71	2014	Aaa	Louisiana
Louisiana Local Government Environmental Facilities and Community Development Authority - System Restoration Bonds (Louisiana Utilities Restoration Corporation Project/ELL), Ser. 2014 (Federal Taxable)	EL Investment Company, LLC	244	2014	Aaa	Louisiana
Consumer 2014 Securitization Funding LLC - Senior Secured Securitization Bonds, Series 2014-A	Consumers Energy Company	378	2014	Aaa	Michigan
Utility Debt Securitization Authority Restructuring Bonds Series 2013T and Series 2013TE	Long Island Power Authority	2022	2013	Aaa	New York
Appalachian Consumer Rate Relief Funding LLC - Senior Secured Consumer Rate Relief Bonds	Appalachian Power Company	380	2013	Aaa	West Virginia
Ohio Phase-In-Recovery Funding LLC	Ohio Power Company	267	2013	Aaa	Ohio
FirstEnergy Ohio PIRB Special Purpose Trust 2013	Cleveland Electric Illuminating Company (The), Ohio Edison Company, Toledo Edison Company	445	2013	Aaa	Ohio
AEP Texas Central Transition Funding III LLC, Senior Secured Transition Bonds	AEP Texas Central Company	800	2012	Aaa	Texas
CenterPoint Energy Transition Bond Company IV, LLC, Series 2012 Senior Secured Transition Bonds	CenterPoint Energy Houston Electric, LLC	1695	2012	Aaa	Texas

Source: Moody's Investor Service

State law and financing order strongly protect the securitization assets

There are three major components of a UCRC securitization: state legislation, a financing order and a true-up mechanism, as shown in Exhibit 4. The securitization law and financing order legally protect the assets backing the bonds.

Exhibit 4
UCRC securitization has three major components



Source: Moody's Investors Service

The state legislature typically passes a law authorizing the utility to finance the recovery of certain costs through the issuance of securitization bonds. The legislation authorizes the creation of a property right allowing the issuer to collect special charges from customers which are used to repay the bonds. Bondholders receive protection through a non-impairment pledge, under which the state pledges that it will not take any actions that alter the charges or the law until the bonds have been repaid in full.

The legislation also mandates an irrevocable financing order, typically issued by the state public utility commission, which means the state cannot change or revoke the financing order once it is issued. The order authorizes the transaction servicer, typically the utility, on behalf of the issuer of the debt, to charge and collect the special surcharges from the utility's ratepayer base.

The securitization law and the financing order mandate a true-up adjustment mechanism under which the servicer must adjust the charges at least annually to ensure the collection of adequate funds to provide for timely payments on the securitization bonds. The securitization law also establishes the issuer of the debt as a bankruptcy-remote special purpose entity (SPE), and the utility sells the securitized asset (the property right) to the SPE via a true sale transaction. The assets are thus legally isolated from the utility. The SPE issues the bonds and uses the proceeds to acquire the asset. The SPE then uses the charge collected from the utility's customers to pay debt service until the bonds are repaid in full. The utility receives the proceeds from the bond issuance.

Too much securitization can also have negative consequences

While the use of securitization does provide more timely recovery of costs for the utility, there can be some downside. In cases where utilities use securitization to recover stranded costs, the mechanism requires utilities to give up the opportunity to include the corresponding asset in its rate base as well as the ability to earn a return on that asset. This diminishes the utility's future earnings power and cash flow generation.

A significant amount of securitization debt could represent a substantial portion of the utility's customer bills. This would not only raise customer rates but could also prevent regulators from approving rate increases in the future, out of concern that rates are rising too much. This could in turn affect the utility's capital investments and the ability to add any such investments to rate base and earn on a return on them.

In addition, since the surcharge on customer bills used to pay off the securitization bonds will typically exist for several years, any new customers in the utility's service territory will be subject to this surcharge. As a result, future customers will be paying for costs related to historical occurrences, which may deter new commercial and industrial businesses from moving into the service territory if rates become less competitive.

Further, customer rates or cash flow used to service securitization debt is senior and has a higher legal priority to the utility's remaining cash flow generation. As such, securitization bondholders would have a senior claim in a liability waterfall during times of financial distress. So a significant amount of securitization debt within a capital structure could put secured and unsecured debt holders at risk of less than full recovery in a bankruptcy filing.

Pacific Gas & Electric's securitization during bankruptcy in the early 2000's demonstrates the enforceability and resiliency of the legal structure

In 1997, Pacific Gas & Electric Company (PG&E, A3 negative) issued $2.9 billion of securitization bonds after obtaining approval by the California Public Utility Commission to recover stranded asset costs associated with the state's utility deregulation. When PG&E filed for bankruptcy on 6 April 2001, both the company and bankruptcy court respected the bankruptcy-remote structure of the securitization that the parties had established in order to isolate the assets of PG&E's securitization from PG&E's bankruptcy estate. PG&E remained the servicer of the transaction and continued to collect and remit the securitization payment. The securitization cash flows were not affected by the bankruptcy due to a build-up in the reserve fund and the base level of customer consumption used to calculate the 2001 tariff remained relatively stable. For these reasons among others, the Aaa (sf) rating on PG&E's stranded costs recovery securitization bonds was maintained throughout the company's bankruptcy.

The bankruptcy remoteness of securitization transactions is stronger than that of other, purely corporate asset-backed securities for several reasons including the explicit recognition, by state legislation, of the right to collect the special surcharge from customers as well as the first lien on the asset that is often granted by statute upon its transfer. The consumption-based fee is imposed on ratepayers and is not dependent on a particular electrical supplier. The fee is not affected if the servicer becomes bankrupt. The underlying legislation usually requires that any successor to the original utility (due to bankruptcy, reorganization, merger, or acquisition) must satisfy all obligations of the original utility, including the collection of the special surcharge. The right to collect the special surcharge is irrevocable and cannot be altered by either the state utility commission or the state.

In January 2005, PG&E issued $1.9 billion of securitization known as energy recovery bonds (ERBs). The securitization financing accelerated the company's collection of the regulatory asset that was created as part of PG&E's bankruptcy. A second securitization financing was completed in late 2005 which enabled PG&E to largely recover the entire regulatory asset. This was another example where securitization was used as a tool to significantly reduce the uncertainty and length of time in the recovery of significant costs, a credit positive, while also reducing costs for customers by keeping rates lower over the long-term.

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