CenterPoint Energy

Securitization may assist natural gas customers

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

Potential legislation could allow gas utilities the option of using a proven financial tool (securitization) to recover these extraordinary costs and limit the bill impact on customers by accessing low-cost, long-term financing through the issuance of AAA-rated bonds, with savings passed on to customers.

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

The Need

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

The Solution

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

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

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

How It Works

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

After stakeholder input and review, the PUC must determine whether securitization is reasonable and will save money for customers. If these conditions are met, the PUC issues a financing order that specifies the costs to be recovered and the allowed financing and related costs for the bonds. It also authorizes a bill surcharge dedicated solely to repayment of the bonds.

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

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

The Benefits

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

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

Securitization may assist natural gas customers: This flowchart shows how a Minnesota regulated natural gas utility could protect customers against “bill shock” while addressing extraordinary, unavoidable costs by accessing low-cost, long-term financing through the issuance of AAA-rated bonds (securitization).