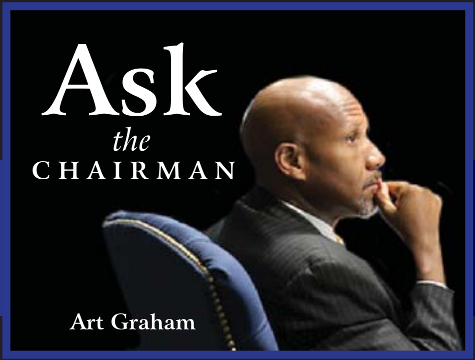

Consumers have called the Florida Public Service Commission (FPSC) toll-free line and asked:

What is "securitization," and how does it impact their bills?

"Securitization," a financing mechanism, has been the focal point of some discussion following the recent legislative session. Securitization was first used in Florida after the severe hurricane seasons in 2004 and 2005. The Florida Legislature created it so investor-owned utilities could petition the Florida Public Service Commission (PSC) for a financing order authorizing the utility to issue bonds for the express purpose of recovering costs related to those storms. (Section 366.8260, Florida Statutes).

If granted by the PSC, a financing order allows a utility to recover costs by issuing bonds, with lower financing costs, thereby saving customers money. The bonds are issued by a third party, and their proceeds repay the utility for its investment. Utility customers pay off the bonds through a dedicated line item on their bill, over several years.

That's the basic definition, but what does securitization really mean for customers? Securitized debt lowers carrying costs compared to conventional utility financing methods. The utility's investment is not added to rate base, so customers are not held responsible for paying the debt costs, return on equity, and income taxes the utility would have incurred.

Electric utilities' first authorized use of securitization was to protect customer interests when paying for hurricane damage and associated costs. The hurricane-recovery bonds were issued so utilities could recoup current hurricane-recovery expenses, and/or replenish utility storm recovery reserves for future storm damage. Florida Power & Light Company was the only utility to implement this finance mechanism.

During the 2015 Legislative Session, CS/HB 7109 was passed, authorizing another type of securitization—issuing bonds for "nuclear asset recovery costs." The crucial consumer safeguard is that the PSC has to find that the utility's use of the financing mechanism will significantly mitigate rate impacts to customers when compared to traditional utility cost recovery methods. If the PSC approves a financing order—and bonds are issued—the electric utility will be required to true up costs at least twice a year through a PSC filing.

What you need to remember is that securitization is security for utility customers. The PSC's financing order sets the recoverable costs and allowable financing costs to be securitized and authorizes a special charge used solely to repay the securitized debt. Moreover, the PSC is responsible for biannual true-ups to ensure utility compliance. Securitization means lower costs to electric utility consumers.