



WHAT IS SECURITIZATION?

Securitization is a financing tool that can help utility customers by mitigating the initial rate shock and the total cost over time of large, unanticipated expenses. It has been used in the past to mitigate the rate impact of unexpected costs such as natural disasters and plant retirements. Securitization is akin to refinancing a mortgage with a very low interest rate and long tenor, which helps create immediate and long-term savings for ratepayers.

The state must pass legislation that ensures the securitized bonds receive a high rating (almost always “AAA”), maximizing savings for customers. This legislation usually includes a pledge of non-interference and mechanisms for periodic bill adjustments.

WHY IS IT IMPORTANT?

The massive winter storms that hit Texas earlier this year devastated large parts of the state, as millions of residents suffered without power and clean water for days. This storm highlighted the risk from weather-related failures [across the energy system](#) that can concurrently take natural gas, coal, and even nuclear plants offline. Amid blackouts, power prices in the ERCOT market reached \$9,000/MWh and spot prices for natural gas reached \$400/MMBTu for long periods of time, creating extraordinary bills that have pushed retail providers into bankruptcy and left the people of Texas to pick up the tab.

As a result, the Texas Legislature is currently considering eight securitization bills to deal with the unpaid electric bills and other fallout from the winter storm. If passed and utilized, utilities could issue tens of billions of dollars of bonds, which would result in ratepayer obligations for the next 15-30 years. While securitization has the potential to save ratepayers hundreds of millions, if not billions, of dollars and prevent near-term rate spikes, securitization legislation must be carefully designed to ensure that these consumer savings are achieved and maximized.

Importantly, Texas has already authorized securitization for hurricane recovery costs. However, these bills are much larger in size and scope and more complex than current hurricane recovery legislation and deserve careful scrutiny.

WHICH BILLS INCLUDE SECURITIZATION?

Authorize securitization for gas and electric utilities <ul style="list-style-type: none"> • SB 1782 (Creighton) 	Authorize securitization for ERCOT <ul style="list-style-type: none"> • SB 1757 (Hancock) • HB 4492 (Paddie)
Authorize securitization for gas utilities <ul style="list-style-type: none"> • HB 1520 (Paddie) • SB 1579 (Hancock) 	Authorize securitization for multiple utilities <ul style="list-style-type: none"> • HB 1510 (Metcalf)
Authorize securitization for electric cooperatives <ul style="list-style-type: none"> • SB 1950 (Paxton) • SB 1580 (Hancock) • HB 3544 (Holland) 	Establishes special districts that can create resiliency bonds <ul style="list-style-type: none"> • HB 3308 (Lucio III)



SHOULD THESE BILLS PASS?

Securitization is a valuable tool that can save consumers money and avoid near-term rate shock. Considering that the purpose of securitization is to reduce consumer rates, these bills must be carefully designed to achieve this outcome. Additionally, the proceeds from securitization bonds can be used to help make Texas's grid more resilient to make future blackout events less likely and less damaging.

WHAT SPECIFICALLY COULD BE CHANGED TO PROTECT CONSUMERS AND IMPROVE GRID RESILIENCY?

1. Require that terms of the bond issue result in maximum consumer savings and the lowest reasonable repayment costs.
2. Allow customers to participate effectively in any process considering securitization.
3. Allow securitization funds to be used to improve grid resilience with winterized clean energy supplies, energy efficiency, and demand response.
4. Allow securitization to be used to retire economically inefficient power plants if it is in the public interest.

IS THERE ANYTHING THAT COULD FURTHER BENEFIT CUSTOMERS?

Yes, these bills (and/or HB 2000/HJR 2) should include financing for weatherization of homes and buildings. While weatherizing power generators and gas supply is important to ensure adequate capacity, weatherizing buildings is also a cost-effective way to reduce demand and use resources more efficiently. Two-thirds of Texas homes pre-date building codes and lack sufficient insulation. Most of these homes have outdated and inefficient electric strip heating, which has proven ineffective in extreme cold. Utilities could finance customer heating upgrades to improve the efficiency, resiliency, and survivability of Texas homes. With insulation, homes can typically stay in the 50s for many days, which could have saved lives this year.

ARE THERE OTHER BILLS THAT INCLUDE FINANCING OF RESILIENCY?

Yes. [HB 2000](#) and [HJR 2](#) would set up the State Utility Reliability Fund (SURF), a revolving loan fund for energy companies modeled after the SWIFT fund used for water infrastructure. SWIFT encourages water conservation funding. One of the prioritization items for SWIFT, [according to the Texas Water Development Board](#), is "demonstration or projected effect of the project on water conservation, including preventing water loss." An analogous requirement for energy conservation could be included in SURF.

ABOUT RMI

RMI is an independent nonprofit founded in 1982 that transforms global energy systems through market-driven solutions to align with a 1.5°C future and secure a clean, prosperous, zero-carbon future for all. We work in the world's most critical geographies and engage businesses, policymakers, communities, and NGOs to identify and scale energy system interventions that will cut greenhouse gas emissions at least 50 percent by 2030. RMI has offices in Basalt and Boulder, Colorado; New York City; Oakland, California; Washington, D.C.; and Beijing.