

By: Thompson, Ritter, Allen, et al.

H.B. No. 1378

Substitute the following for H.B. No. 1378:

By: Solomons

C.S.H.B. No. 1378

A BILL TO BE ENTITLED

AN ACT

relating to methods for the recovery of system restoration costs incurred by electric utilities following hurricanes, tropical storms, ice or snow storms, floods, and other weather-related events and natural disasters.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 36, Utilities Code, is amended by adding Subchapter I to read as follows:

SUBCHAPTER I. SECURITIZATION FOR RECOVERY OF SYSTEM

RESTORATION COSTS

Sec. 36.401. SECURITIZATION FOR RECOVERY OF SYSTEM

RESTORATION COSTS; PURPOSE. (a) The purpose of this section and of Sections 36.402-36.406 is to enable an electric utility to obtain timely recovery of system restoration costs and to use securitization financing to recover these costs, because that type of debt will lower the carrying costs associated with the recovery of these costs, relative to the costs that would be incurred using conventional financing methods. The proceeds of the transition bonds may be used only for the purposes of reducing the amount of recoverable system restoration costs, as determined by the commission in accordance with this subchapter, including the refinancing or retirement of utility debt or equity.

(b) It is the intent of the legislature that:

(1) securitization of system restoration costs will be

1 accomplished using the same procedures, standards, and protections
2 for securitization authorized under Subchapter G, Chapter 39, as in
3 effect on the effective date of this section, except as provided by
4 this subchapter; and

5 (2) the commission will ensure that securitization of
6 system restoration costs provides greater tangible and
7 quantifiable benefits to ratepayers than would have been achieved
8 without the issuance of transition bonds.

9 Sec. 36.402. SYSTEM RESTORATION COSTS; STANDARDS AND
10 DEFINITIONS. (a) In this subchapter, "system restoration costs"
11 means reasonable and necessary costs, including costs expensed,
12 charged to self-insurance reserves, deferred, capitalized, or
13 otherwise financed, that are incurred by an electric utility due to
14 any activity or activities conducted by or on behalf of the electric
15 utility in connection with the restoration of service and
16 infrastructure associated with electric power outages affecting
17 customers of the electric utility as the result of any tropical
18 storm or hurricane, ice or snow storm, flood, or other
19 weather-related event or natural disaster that occurred in calendar
20 year 2008 or thereafter. System restoration costs include
21 mobilization, staging, and construction, reconstruction,
22 replacement, or repair of electric generation, transmission,
23 distribution, or general plant facilities. System restoration
24 costs shall include reasonable estimates of the costs of an
25 activity or activities conducted or expected to be conducted by or
26 on behalf of the electric utility in connection with the
27 restoration of service or infrastructure associated with electric

1 power outages, but such estimates shall be subject to true-up and
2 reconciliation after the actual costs are known.

3 (b) System restoration costs shall include carrying costs
4 at the utility's weighted average cost of capital as last approved
5 by the commission in a general rate proceeding from the date on
6 which the system restoration costs were incurred until the date
7 that transition bonds are issued or until system restoration costs
8 are otherwise recovered pursuant to the provisions of this
9 subchapter.

10 (c) To the extent a utility subject to this subchapter
11 receives insurance proceeds, governmental grants, or any other
12 source of funding that compensate it for system restoration costs,
13 those amounts shall be used to reduce the utility's system
14 restoration costs recoverable from customers. If the timing of a
15 utility's receipt of those amounts prevents their inclusion as a
16 reduction to the system restoration costs that are securitized, or
17 the commission later determines as a result of the true-up and
18 reconciliation provided for in Subsection (a) that the actual costs
19 incurred are less than estimated costs included in the
20 determination of system restoration costs, the commission shall
21 take those amounts into account in:

- 22 (1) the utility's next base rate proceeding; or
23 (2) any subsequent proceeding, other than a true-up
24 proceeding under Section 39.307, in which the commission considers
25 system restoration costs.

26 (d) If the commission determines that the insurance
27 proceeds, governmental grants, or other sources of funding that

1 compensate the electric utility for system restoration costs, or
2 the amount resulting from a true-up of estimated system restoration
3 costs are of a magnitude to justify a separate tariff rider, the
4 commission may establish a tariff rider to credit such amounts
5 against charges, other than transition charges or system
6 restoration charges as defined in Section 36.403, being collected
7 from customers.

8 (e) To the extent that the utility receives insurance
9 proceeds, governmental grants, or any other source of funding that
10 is used to reduce system restoration costs, the commission shall
11 impute interest on those amounts at the same cost of capital
12 included in the utility's system restoration costs until the date
13 that those amounts are used to reduce the amount of system
14 restoration costs that are securitized or otherwise reflected in
15 the rates of the utility.

16 Sec. 36.403. STANDARDS AND PROCEDURES GOVERNING
17 SECURITIZATION AND RECOVERY OF SYSTEM RESTORATION COSTS. (a) The
18 procedures and standards of this subchapter and the provisions of
19 Subchapter G, Chapter 39, govern an electric utility's application
20 for, and the commission's issuance of, a financing order to provide
21 for the securitization of system restoration costs, or to otherwise
22 provide for the recovery of system restoration costs.

23 (b) Subject to the standards, procedures, and tests
24 contained in this subchapter and Subchapter G, Chapter 39, the
25 commission shall adopt a financing order on the application of the
26 utility to recover its system restoration costs. If on its own
27 motion or complaint by an affected person, the commission

1 determines that it is likely that securitization of system
2 restoration costs would meet the tests contained in Section
3 36.401(b), the commission shall require the utility to file an
4 application for a financing order. On the commission's issuance of
5 a financing order allowing for recovery and securitization of
6 system restoration costs, the provisions of this subchapter and
7 Subchapter G, Chapter 39, continue to govern the financing order
8 and the rights and interests established in the order, and this
9 subchapter and Subchapter G, Chapter 39, continue to govern any
10 transition bonds issued pursuant to the financing order. To the
11 extent any conflict exists between the provisions of this
12 subchapter and Subchapter G, Chapter 39, in cases involving the
13 securitization of system restoration costs, the provisions of this
14 subchapter control.

15 (c) For purposes of this subchapter, "financing order," as
16 defined by Section 39.302 and as used in Subchapter G, Chapter 39,
17 includes a financing order authorizing the securitization of system
18 restoration costs.

19 (d) For purposes of this subchapter, "qualified costs," as
20 defined by Section 39.302 and as used in Subchapter G, Chapter 39,
21 includes 100 percent of the electric utility's system restoration
22 costs, net of any insurance proceeds, governmental grants, or other
23 source of funding that compensate the utility for system
24 restoration costs, received by the utility at the time it files an
25 application for a financing order. Qualified costs also include
26 the costs of issuing, supporting, and servicing transition bonds
27 and any costs of retiring and refunding existing debt and equity

1 securities of an electric utility subject to this subchapter in
2 connection with the issuance of transition bonds. For purposes of
3 this subchapter, the term qualified costs also includes:

4 (1) the costs to the commission of acquiring
5 professional services for the purpose of evaluating proposed
6 transactions under this subchapter; and

7 (2) costs associated with ancillary agreements such as
8 any bond insurance policy, letter of credit, reserve account,
9 surety bond, swap arrangement, hedging arrangement, liquidity or
10 credit support arrangement, or other financial arrangement entered
11 into in connection with the issuance or payment of transition
12 bonds.

13 (e) For purposes of this subchapter, "transition bonds," as
14 defined by Section 39.302 and as used in Subchapter G, Chapter 39,
15 includes transition bonds issued in association with the recovery
16 of system restoration costs. Transition bonds issued to securitize
17 system restoration costs may be called "system restoration bonds"
18 or may be called by any other name acceptable to the issuer and the
19 underwriters of the transition bonds.

20 (f) For purposes of this subchapter, "transition charges,"
21 as defined by Section 39.302 and as used in Subchapter G, Chapter
22 39, includes nonbypassable amounts to be charged for the use of
23 electric services, approved by the commission under a financing
24 order to recover system restoration costs, that shall be collected
25 by an electric utility, its successors, an assignee, or other
26 collection agents as provided for in the financing order.
27 Transition charges approved by the commission under a financing

1 order to recover system restoration costs may be called "system
2 restoration charges" or may be called by any other name acceptable
3 to the issuer and the underwriters of the transition bonds.

4 (g) Notwithstanding Section 39.303(c), system restoration
5 costs shall be functionalized and allocated to customers in the
6 same manner as the corresponding facilities and related expenses
7 are functionalized and allocated in the utility's current base
8 rates. For an electric utility operating within the Electric
9 Reliability Council of Texas, system restoration costs that are
10 properly includable in the transmission cost of service mechanism
11 adopted under Section 35.004 and associated deferred costs not
12 included under Section 35.004 shall be recovered under the method
13 of pricing provided for in that section and commission rules
14 promulgated thereunder; provided, however, that an electric
15 utility operating under a rate freeze or other limitation on its
16 ability to pass through wholesale costs to its customers may defer
17 such costs and accrue carrying costs at its weighted average cost of
18 capital as last approved by the commission in a general rate
19 proceeding until such time as the freeze or limitation expires.

20 (h) The amount of any accumulated deferred federal income
21 taxes offset, used to determine the securitization total, may not
22 be considered in future rate proceedings. Any tax obligation of the
23 electric utility arising from its receipt of securitization bond
24 proceeds, or from the collection and remittance of transition
25 charges, shall be recovered by the electric utility through the
26 commission's implementation of this subchapter.

27 (i) Notwithstanding a rate freeze or limitations on an

1 electric utility's ability to change rates authorized or imposed by
2 any other provision of this title or by a regulatory authority, an
3 electric utility is entitled to recover system restoration costs
4 consistent with the provisions of this subchapter.

5 (j) If in the course of a proceeding to adopt a financing
6 order the commission determines that the recovery of all or any
7 portion of an electric utility's system restoration costs, using
8 securitization, is not beneficial to ratepayers of the electric
9 utility, under one or more of the tests applied to determine those
10 benefits, the commission shall nonetheless use the proceeding to
11 issue an order permitting the electric utility to recover the
12 remainder of its system restoration costs through an appropriate
13 customer surcharge mechanism, including carrying costs at the
14 electric utility's weighted average cost of capital as last
15 approved by the commission in a general rate proceeding, to the
16 extent that the electric utility has not securitized those costs. A
17 rate proceeding under Subchapter C or D shall not be required to
18 determine and implement this surcharge mechanism. On the final
19 implementation of rates resulting from the filing of a rate
20 proceeding under Subchapter C or D that provides for the recovery of
21 all remaining system restoration costs, a rider or surcharge
22 mechanism adopted under this subsection shall expire. This
23 subsection is limited to instances in which an electric utility has
24 incurred system restoration costs of \$100 million or more in any
25 calendar year after January 1, 2008.

26 Sec. 36.404. NONBYPASSABLE CHARGES. The commission shall
27 include terms in the financing order to ensure that the imposition

1 and collection of transition charges associated with the recovery
2 of system restoration costs are nonbypassable by imposing
3 restrictions on bypassability of the type provided for in Chapter
4 39 or by alternative means of ensuring nonbypassability, as the
5 commission considers appropriate, consistent with the purposes of
6 securitization.

7 Sec. 36.405. DETERMINATION OF SYSTEM RESTORATION COSTS.

8 (a) An electric utility is entitled to recover system restoration
9 costs consistent with the provisions of this subchapter and is
10 entitled to seek recovery of amounts not recovered under this
11 subchapter, including system restoration costs not yet incurred at
12 the time an application is filed under Subsection (b), in its next
13 base rate proceeding or through any other proceeding authorized by
14 Subchapter C or D.

15 (b) An electric utility may file an application with the
16 commission seeking a determination of the amount of system
17 restoration costs eligible for recovery and securitization. The
18 commission may by rule prescribe the form of the application and the
19 information reasonably needed to support the application;
20 provided, however, that if such a rule is not in effect, the
21 electric utility shall not be precluded from filing its application
22 and such application cannot be rejected as being incomplete.

23 (c) The commission shall issue an order determining the
24 amount of system restoration costs eligible for recovery and
25 securitization not later than the 150th day after the date an
26 electric utility files its application. The 150-day period begins
27 on the date the electric utility files the application, even if the

1 filing occurs before the effective date of this section.

2 (d) An electric utility may file an application for a
3 financing order prior to the expiration of the 150-day period
4 provided for in Subsection (c). The commission shall issue a
5 financing order not later than 90 days after the utility files its
6 request for a financing order; provided, however, that the
7 commission need not issue the financing order until it has
8 determined the amount of system restoration costs eligible for
9 recovery and securitization.

10 (e) To the extent the commission has made a determination of
11 the eligible system restoration costs of an electric utility before
12 the effective date of this section, that determination may provide
13 the basis for the utility's application for a financing order
14 pursuant to this subchapter and Subchapter G, Chapter 39. A
15 previous commission determination does not preclude the utility
16 from requesting recovery of additional system restoration costs
17 eligible for recovery under this subchapter, but not previously
18 authorized by the commission.

19 (f) A rate proceeding under Subchapter C or D shall not be
20 required to determine the amount of recoverable system restoration
21 costs, as provided by this section, or for the issuance of a
22 financing order.

23 (g) A commission order under this subchapter is not subject
24 to rehearing. A commission order may be reviewed by appeal only to
25 a Travis County district court by a party to the proceeding filed
26 within 15 days after the order is signed by the commission. The
27 judgment of the district court may be reviewed only by direct appeal

1 to the Supreme Court of Texas filed within 15 days after entry of
2 judgment. All appeals shall be heard and determined by the district
3 court and the Supreme Court of Texas as expeditiously as possible
4 with lawful precedence over other matters. Review on appeal shall
5 be based solely on the record before the commission and briefs to
6 the court and shall be limited to whether the order conforms to the
7 constitution and laws of this state and the United States and is
8 within the authority of the commission under this chapter.

9 Sec. 36.406. SEVERABILITY. Effective on the date the first
10 utility transition bonds associated with system restoration costs
11 are issued under this subchapter, if any provision in this title or
12 portion of this title is held to be invalid or is invalidated,
13 superseded, replaced, repealed, or expires for any reason, that
14 occurrence does not affect the validity or continuation of this
15 subchapter, Subchapter G, Chapter 39, as it applies to this
16 subchapter, or any part of those provisions, or any other provision
17 of this title that is relevant to the issuance, administration,
18 payment, retirement, or refunding of transition bonds or to any
19 actions of the electric utility, its successors, an assignee, a
20 collection agent, or a financing party, and those provisions shall
21 remain in full force and effect.

22 SECTION 2. This Act takes effect immediately if it receives
23 a vote of two-thirds of all the members elected to each house, as
24 provided by Section 39, Article III, Texas Constitution. If this
25 Act does not receive the vote necessary for immediate effect, this
26 Act takes effect September 1, 2009.