

Missouri Electricity Bill Reduction Assistance Act

Legislative Summary

The Missouri Electricity Bill Reduction Assistance Act ([HB734](#) and similar to [SB202](#)) enables a financial process known as securitization. This is similar to loan refinancing, and reduces utility debt with ratepayer-backed bonds. Securitization can reduce financial burden on utilities and ratepayers for stranded assets, i.e., assets no longer expected to cover their costs, and has been used for early retirement of uneconomic coal plants and recovery from disasters.

Highlights

- Securitization is a financial tool that would allow utilities to recover costs on stranded assets and potentially save money for ratepayers.
- This financial process has been used in other states for retiring coal plants and recovering from disasters.
- Utility securitization legislation is implemented in some form in 25 other states, which vary in consumer protections, carve outs for people potentially impacted by closed assets, and requirements for when and how securitization can be used (e.g., only for storm damage or other specific circumstance, etc.).

Limitations

- There is limited peer-reviewed research on securitization legislation and the impacts for energy generation and costs.

Securitization

Securitization is a financial tool that allows utilities to address unanticipated costs from disasters or market changes.¹ This tool is often compared with refinancing a mortgage. Utilities often raise funds with an 8 to 9% interest rate and securitization replaces that equity and debt with government or ratepayer-backed bonds that reduce the interest to 2 to 4%.¹ This process can create savings for the utility which may be passed onto the ratepayer.

Many states have authorized utility use of securitization to assist with energy transition, as renewable energy generation has become a cost-effective option to replace coal plants. Some states have also authorized securitization for utilities to recover from damages and costs due to hurricanes and storms (e.g., Florida), wildfires and potentially COVID-19 related costs (e.g., California).

Twenty-five states, along with Washington DC and Puerto Rico, have some form of utility securitization laws.² Some laws were put in place in the late 1990s and early 2000s during restructuring of utility markets. Over the last 20 years, \$50 billion in securitized utility bonds have been issued.² Since 2019, several states have passed securitization laws, including New Mexico, Colorado, and Montana driven in part by the economic and environmental incentives for closing coal plants, with different implementations regarding regulatory oversight and community protections, discussed below.³ Examples of utility securitization include: Michigan's shutdown of the Karn coal-burning generating stations, with ratepayer-backed bonds approved

in 2020 and estimated to save ratepayers \$126 million over 8 years; cost recovery from a Wisconsin coal plant shutdown in 2018, estimated to save ratepayers \$40 million; Florida's Duke Energy used securitization help with early retirement of a nuclear reactor in 2004.^{4,5} There is limited information to compare the impacts of legislation on utility securitization of states with or without it.

Environmental Impacts

While securitization legislation does not mandate coal plant closures, it can minimize costs during the energy transition, as other forms of energy (natural gas, solar, wind) become increasingly less expensive and coal becomes uneconomical. A 2019 report from Energy Innovation suggests that 74% of the U.S. coal fleet could be replaced by local wind and solar with savings for consumers, even as federal renewable energy tax credits phase out.⁶ In Missouri, this includes an estimated 2660 MW of coal capacity that could be replaced by less expensive renewables by 2025.⁶ Coal-fired power plants emit many air pollutants including sulfur dioxide, nitrogen oxides, and particulate matter, which can contribute to asthma and other respiratory concerns. A study of coal plant retirements in Kentucky found an associated reduction in asthma hospitalizations.⁷ Low-income and minority populations tend to suffer a higher burden of air pollution from coal plants, and may continue to face disparities when coal plant closures are influenced by community racial composition and poverty level.^{8,9} Compliance with regulation for air pollutants and greenhouse gases is a greater challenge for coal-fired power plants than renewable energy sources that do not emit greenhouse gases.¹⁰

Regulatory Authority and Consumer Protection

Oversight of utility securitization varies from state to state. New Mexico's recent legislation was criticized for pre-empting the Public Utility Commission's oversight which could allow utilities to recover higher amounts from unwise investments.³ Other states require their commissions on public utilities for specific assessment to determine if ratepayer-backed bonds can be used. Colorado's recent legislation is an example of increased consumer protection, with requirements that securitization proposed would have quantifiable savings.³

Community and Worker Impacts

In recent legislation, Colorado and New Mexico have provisions intended to assist with the energy transition for communities and workers for early coal plant retirement, while others like Montana do not address this in the same legislation. Colorado may include mitigation costs in bonds, and New Mexico set specific funds for addressing these concerns.^{3,10} Note that separate legislation may address community transition impacts.¹⁰

References

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