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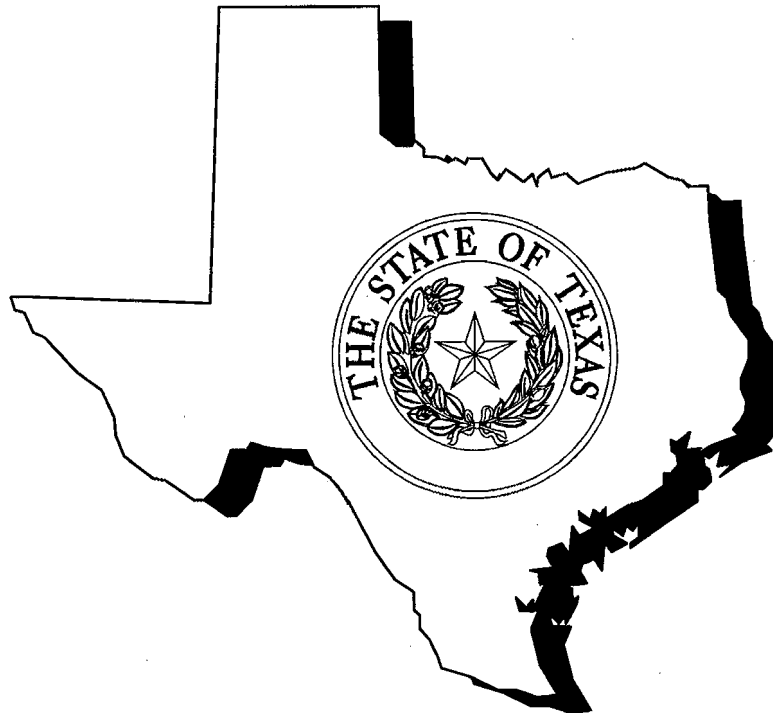
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**DOCKET NO. 52322**

**APPLICATION OF THE ELECTRIC  
RELIABILITY COUNCIL OF TEXAS,  
INC. FOR A DEBT OBLIGATION  
ORDER TO FINANCE UPLIFT  
BALANCES UNDER PURA CHAPTER  
39, SUBCHAPTER N, FOR AN ORDER  
INITIATING A PARALLEL DOCKET,  
AND FOR A GOOD CAUSE  
EXCEPTION**

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**PUBLIC UTILITY COMMISSION  
OF TEXAS**



**DIRECT TESTIMONY OF DARRYL TIETJEN**

**RATE REGULATION DIVISION**

**PUBLIC UTILITY COMMISSION OF TEXAS**

**AUGUST 16, 2021**

## DIRECT TESTIMONY OF DARRYL TIETJEN

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Attachment DT-1

List of Testimonies by Darryl Tietjen

**I. INTRODUCTION**

**Q. Please state your name and business address.**

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Public Utility Commission of Texas (Commission) as the Director of the Rate Regulation Division.

**Q. What are your principal areas of responsibility?**

A. In addition to the management of the Rate Regulation Division, I am responsible for conducting analyses and participating in proceedings involving various financial and accounting issues pertaining to regulated utility companies. These analyses and activities include developing fair rates of return on invested capital, evaluating financial integrity requirements, leading or participating in various rulemaking proceedings, and preparing testimony concerning a variety of financial matters relevant to public utilities regulated by the Commission.

**Q. Please describe your educational background and professional qualifications.**

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin (UT Austin), and a Bachelor of Business Administration degree with a concentration in finance, also from UT Austin. While earning my master's degree, I was employed by UT Austin as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas. For over 22 years I was a member of the planning committee for the annual Energy Conference

1 sponsored by the Texas Society of Certified Public Accountants, and I twice served as  
2 chairman of that committee.

3 I also hold the designation of Chartered Financial Analyst (CFA), which is awarded  
4 by the CFA Institute after successful completion of its three-part examination process over  
5 a minimum three-year period. The curriculum for the CFA charter covers a defined body  
6 of knowledge fundamental to the practice of investment management, and includes the  
7 areas of finance, accounting, economics, statistics, and ethical and professional conduct.  
8

9 **Q. Have you previously testified before this Commission?**

10 A. Yes. Attachment DT-1 provides a summary of the dockets in which I have filed direct or  
11 other testimony.  
12

13 **Q. What is the purpose of your testimony in this case, Docket No. 52322, *Application of***  
14 ***the Electric Reliability Council of Texas, Inc. for a Debt Obligation Order to Finance***  
15 ***Uplift Balances under PURA Chapter 39, Subchapter N, for an Order Initiating a***  
16 ***Parallel Docket, and for a Good Cause Exception?***

17 A. The purpose of my testimony is to address the general reasonableness of the proposal by  
18 the Electric Reliability Council of Texas, Inc. (ERCOT) to finance the Commission-  
19 authorized uplift balance<sup>1</sup> using a form of “securitization” financing that is similar to that  
20 previously approved by the Commission in a number of cases. I also address in my

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<sup>1</sup> PURA § 39.652(4) defines “uplift *balance*” as:

an amount of money of not more than \$2.1 billion that was uplifted to load-serving entities on a load ratio share basis due to energy consumption during the period of emergency for reliability deployment price adder charges and ancillary services costs in excess of the commission's system-wide offer cap, excluding amounts securitized under Subchapter D, Chapter 41. The term does not include amounts that were part of the prevailing settlement point price during the period of emergency.

PURA § 39.652(5) defines “uplift *charges*” as:

charges assessed to load-serving entities to repay amounts financed under this subchapter to pay the uplift balance and reasonable costs incurred by a state agency or the independent organization to implement a debt obligation order under Section 39.653, 39.654, or 39.655, including the cost of retiring or refunding existing debt.

1 testimony how ERCOT's proposed approach complies with certain standards required by  
2 the Public Utility Regulatory Act (PURA). Specifically, PURA § 39.651(e) requires that:

3 the structuring and pricing of the debt obligations results in the lowest uplift  
4 charges consistent with market conditions and the terms of the order issued  
5 under this subchapter.  
6

7 Similarly, PURA § 39.653(a) requires the Commission to find that the debt financing will:  
8

9 support the financial integrity of the wholesale market and is necessary to  
10 protect the public interest, considering the impact on both wholesale market  
11 participants and retail customers.  
12  
13

14 I would note here that, for purposes of general reference, I use throughout my testimony  
15 the phrase "traditional securitization financing" (or variations thereof) to refer to the  
16 conceptual, legal, and procedural framework characterizing the securitized bond issuances  
17 the Commission has authorized in the past.  
18

19 **Q. Are you offering in this proceeding a recommendation with regard to whether**  
20 **implementation of ERCOT's proposal to use traditional securitization financing is**  
21 **the optimal method of financing the uplift balance?**

22 A. No. My testimony addresses the reasonableness of ERCOT's general proposal to use  
23 traditional securitization concepts as one possible means of financing the uplift balance. I  
24 am not in my testimony taking a position on whether ERCOT's proposed traditional  
25 securitization financing is the *best* financing alternative available to the Commission.  
26

## 27 **II. OVERVIEW OF SECURITIZATION FINANCING**

28 **Q. Please briefly describe securitization financing and the history of Texas legislation**  
29 **authorizing its use by the state's electric utility companies for recovery of certain**  
30 **types of costs.**

31 A. In general, securitization financing is a method of financing in which an entity issues bonds  
32 backed by a specific pool of assets or stream of cash flows. Cash flows related to many

1 different kinds of assets can be securitized—auto loans, student loans, mortgages, and  
2 credit card receivables are all examples of assets that can be used to collateralize securitized  
3 bonds. The key requirement is that the assets provide generally stable cash flows that can  
4 be used to pay the securitized bonds' principal and interest charges.

5 In 1999, the passage by the Texas Legislature of Senate Bill 7<sup>2</sup> authorized the use  
6 of securitization financing by utility companies for the recovery of “stranded costs”  
7 resulting from the restructuring of the Texas electricity market.<sup>3</sup> The legislation's intent  
8 was to use securitization as a means by which utilities could receive full and immediate  
9 cash recovery for stranded-cost amounts authorized by the Commission. Later, in 2006,  
10 House Bill 163<sup>4</sup> authorized the use of securitization financing for the recovery of costs  
11 specifically related to Hurricane Rita, and in 2009, Senate Bill 769<sup>5</sup> authorized the use of  
12 securitization financing for recovery of weather-related and natural disaster costs defined  
13 more broadly as “system restoration costs.” PURA § 36.401(a) from the 2009 legislation  
14 states in part that:

15  
16 The purpose of this subchapter is to enable an electric utility to obtain timely  
17 recovery of system restoration costs and to use securitization financing to  
18 recover these costs, because that type of debt will lower the carrying costs  
19 associated with the recovery of these costs, relative to the costs that would  
20 be incurred using conventional financing methods.  
21

22 The 2006 and 2009 legislation incorporated the same procedures, standards, and economic  
23 tests that the 1999 legislation applied to securitized recovery of stranded costs.  
24 Specifically, PURA § 36.401(b)(1) states that:

25  
26 It is the intent of the legislature that securitization of system restoration  
27 costs will be accomplished using the same procedures, standards, and

---

<sup>2</sup> Act of Jun. 18, 1999, 76th Leg. R.S. ch. 39, subchapter F (codified at PURA §§ 39.251-.265).

<sup>3</sup> In the context of regulated utility companies, “stranded costs” arise when the value of a utility's assets in a competitive marketplace is lower than the assets' value on the utility's regulatory accounting books.

<sup>4</sup> Act of May 31, 2006, 79th Leg., 3d. C.S. (codified at PURA §§ 39.458-.463).

<sup>5</sup> Act of Apr. 16, 2009, 81st Leg., R.S., ch. 36, subchapter I (codified at PURA §§ 36.401-.406).

1           protections for securitization authorized under Subchapter G, Chapter 39,  
2           as in effect on the effective date of this section...

3  
4           Because of the various statutory protections and regulatory mechanisms that are part of the  
5           securitization legislation in Texas, all securitization bonds issued to date by Texas utility  
6           companies have received AAA credit ratings. These ratings (the highest available)  
7           translate to lower interest rates and reduced ratepayer costs in comparison to traditional  
8           utility financing.

9  
10       **Q.    Have you participated in previous Commission proceedings that addressed requests**  
11       **by utility companies for financing orders authorizing the use of securitization**  
12       **financing?**

13       A.    Yes, I have participated in every such Commission proceeding. Since 2000, Texas electric  
14       utility companies have completed 13 securitized bond transactions,<sup>6</sup> and in each of the  
15       Commission proceedings authorizing those bond issuances, I was involved in some  
16       capacity in Staff's analysis of the transaction—including seven cases in which I filed  
17       written testimony—as well as in various aspects of the subsequent underwriting process  
18       and pricing of the securitized bonds.

19  
20       **Q.    What is the total amount of costs that Texas utility companies have securitized to**  
21       **date?**

22       A.    The table below summarizes the total \$11.186 billion amount of securitized bond  
23       issuances. The table also provides basic details on the relevant utility companies, bond  
24       issuance dates, related docket numbers, and achieved pricing levels.

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<sup>6</sup> Of the 13 previous securitized bond issuances, nine were for recovery of stranded costs and certain “true-up” balances, and four were for recovery of hurricane-related costs.



Company	Issuance Date	Docket #	Issuance Amount (rounded)	Securitized Yield
Reliant	Oct 2001	21665	\$749,000,000	5.37%
Central Power & Light	Feb 2002	21528	\$797,000,000	5.80%
Oncor	Aug 2003	25230	\$500,000,000	4.84%
Oncor	Jun 2004	25230	\$790,000,000	4.88%
CenterPoint	Dec 2005	30485	\$1,851,000,000	5.18%
AEP Texas Central	Oct 2006	32475	\$1,740,000,000	5.19%
Entergy (storm costs)	Jun 2007	33586	\$330,000,000	5.83%
CenterPoint	Feb 2008	34448	\$488,000,000	4.78%
Entergy (storm costs)	Nov 2009	37247	\$546,000,000	3.88%
CenterPoint (storm costs)	Nov 2009	37200	\$665,000,000	3.72%
CenterPoint	Jan 2012	39809	\$1,695,000,000	2.50%
AEP Texas Central	Mar 2012	39931	\$800,000,000	2.28%
AEP Texas (storm costs)	Sept 2019	49308	\$235,000,000	2.23%
<b>Total Securitized Amt's by Texas utility companies:</b>			<b>\$11,186,000,000</b>	

### **III. DESCRIPTION OF ERCOT'S REQUEST**

**Q. Please describe the fundamental request ERCOT is making in this filing with regard to the use of traditional securitization financing.**

**A.** I believe that the following text from ERCOT's filing captures concisely the key legal, procedural, and financial elements of the proposal to use traditional securitization financing to address the uplift balance:

ERCOT's proposed debt financing mechanism under PURA § 39.653 will include the creation of a bankruptcy-remote special purpose entity that will issue debt obligations with a principal amount equal to the Uplift Balance, plus the implementation costs. The transaction will securitize the Uplift Charges through the creation of Uplift Property to be pledged and assigned by ERCOT as collateral, or sold and transferred, and act as the source of repayment for the debt obligations. In order to ensure that the structuring and pricing of the debt obligations results in the lowest Uplift Charges consistent with market conditions and the terms of an order issued under Subchapter N, as required by PURA § 39.651(e), ERCOT proposes a Debt Obligation Order that allows for the final structuring of the debt financing mechanism to be accomplished through the use of an Issuance Advice Letter

1 Process. That process is described in the testimony of Charles Atkins and  
2 the attached proposed Debt Obligation Order.<sup>7</sup>  
3

4 **Q. The language cited above states that the testimony of Charles Atkins describes certain**  
5 **parts of the securitization process. What are your general thoughts regarding Mr.**  
6 **Atkins' testimony in this proceeding?**

7 A. Based on my experience in previous securitization proceedings at this Commission, I feel  
8 that Mr. Atkins' testimony is exceedingly thorough in its discussion of a variety of key  
9 elements of both the conceptual underpinnings and the procedural aspects of a traditional  
10 securitization financing. I would additionally note that, although I am not an attorney, I  
11 feel that Mr. Atkins' discussion and characterization of the legal facets of traditional  
12 securitization financing are consistent with the Commission's past securitization-related  
13 orders in terms of reflecting the statutory foundations and fulfilling the economic  
14 objectives of securitization financing as set forth in PURA.  
15

16 **Q. Included in the details of Mr. Atkins' testimony are certain tranching and pricing**  
17 **assumptions for the proposed securitized bond issuance. Do you the feel that, at this**  
18 **stage of this proceeding, the use of assumptions for such fundamental aspects of the**  
19 **proposed bond issuance is in any way problematic?**

20 A. No. In previous cases involving requests for Commission approval to issue securitized  
21 bonds, utility companies and their financial advisors have included data and information  
22 that is necessarily based on assumptions and projections. In fact, the actual issuance and  
23 pricing of securitized utility bonds does not typically happen until two to three months after  
24 the Commission has issued a financing order. Accordingly, as Mr. Atkins discusses in his  
25 testimony, his illustrative scenarios are based on current market conditions and are  
26 therefore preliminary and estimated, with the final terms remaining unknowable until the

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<sup>7</sup> Application of the Electric Reliability Council of Texas, Inc. for a Debt Obligation Order to Finance Uplift Balances Pursuant to Chapter 39, Subchapter N, for an Order Initiating a Parallel Docket, and for a Good-Cause Exception at Bates 7-8 (Jul. 16, 2021).

1 securities are actually priced in the marketplace. At that time, investor demand will  
2 determine market-clearing interest rates and the final structure offered to investors. Later  
3 in my testimony, I address the process by which the Commission will determine whether  
4 the terms and conditions of the issuance at the time of pricing comply with relevant  
5 statutory requirements.

6  
7 **IV. STATUTORY TESTS: FINANCIAL INTEGRITY OF THE WHOLESALE**  
8 **MARKET AND PROTECTING THE PUBLIC INTEREST;**  
9 **STRUCTURING AND PRICING**

10 **A. Financial Integrity and Public Interest Test (PURA § 39.653(a))**

11 **Q. Do you believe that Commission approval and implementation of ERCOT's proposed**  
12 **use of traditional securitization financing would meet the requirements of PURA**  
13 **§ 39.653(a) with regard to supporting the financial integrity of the wholesale market**  
14 **and protecting the public interest?**

15 **A.** Yes. With regard to the provisions of PURA § 39.653(a), I believe that the proposed form  
16 of securitization financing would provide integrity and stability to the market and would  
17 be consistent with protecting the public interest. Implementation of ERCOT's proposal to  
18 use traditional securitization financing can be expected to result in advantageous lower-  
19 cost interest charges and a reasonable opportunity for a number of market participants to  
20 remain viable in the Texas electricity market. It would also reflect a degree of legislative  
21 and regulatory assurance with regard to the goal of preserving overall stability in the  
22 financial condition of the Texas electricity market and it would provide a degree of  
23 certainty to the investment community that stakeholders have a reasonable opportunity to  
24 regain and maintain economic viability.

**B.     Structuring and Pricing Test (PURA § 39.651(e))**

**Q.     Do you believe that implementation of ERCOT's proposed traditional securitization financing would meet the structuring and pricing test as prescribed in PURA § 39.651(e)?**

A.     Yes. As I discussed previously, PURA § 39.651(e) states that:

The commission shall ensure that the structuring and pricing of debt obligations results in the lowest uplift charges costs consistent with market conditions and the terms of the order issued under this subchapter.

In the manner I describe below, the transaction would meet the structuring and pricing test in the same way that past securitized bond issuances by Texas utilities have met it.

**Q.     Please describe the process and the point in time at which the Commission makes its final determination on whether the transaction meets the structuring and pricing requirements.**

A.     Shortly (typically a few days) before the issuance of the securitized bonds, the Commission will make a final assessment of compliance with the structuring and pricing test. This assessment will be based on information relating to then-prevailing market conditions that the Commission's designated representative (as identified in the Commission's debt obligation order in this proceeding) will communicate to the Commission, and that information will reflect the terms of the transaction as developed through the underwriting process and the work of the underwriting investment banks, ERCOT, and, possibly, an outside financial advisor, should the Commission choose to employ such. At that point in time, if the Commission concludes that the transaction does not meet the structuring and pricing test, the Commission will stop the process and the transaction will not take place. If, however, the Commission determines that the transaction meets the relevant statutory requirements, the Commission will finalize its approval and the bonds will be issued.

1           **V. RECOMMENDATION**

2   **Q. Please summarize your recommendations in this docket.**

3   A. Although I am not addressing other financing alternatives that the Commission may wish  
4       to consider in this proceeding, my recommendation regarding ERCOT's proposal to use  
5       traditional securitization financing for the payment of uplift balance is that the proposed  
6       approach is reasonable and in the public interest. I base this recommendation on my  
7       assessment that the overall framework of ERCOT's request is consistent with what I  
8       consider to be the well-established conceptual foundations, legal aspects, and procedural  
9       practices the Commission has used for the 13 previous transactions involving traditional  
10      securitization financing. Additionally, my recommendation reflects my conclusion that  
11      Commission approval and implementation of ERCOT's proposal would pass the statutory  
12      tests set forth in PURA §§ 39.651(e) and 39.653(a).

13  
14   **Q. Does this conclude your testimony?**

15   A. Yes.

**LIST OF TESTIMONIES  
BY DARRYL TIETJEN**

<u>P.U.C. Docket</u>	<u>Company</u>	<u>Subject</u>
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Exp.
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Refinancing Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Reg Asset Treatment
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Int on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order

**LIST OF TESTIMONIES  
BY DARRYL TIETJEN (cont.)**

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC
33586	Entergy Gulf States, Inc.	Financing Order
32795	\$5 Billion Stranded-Cost Threshold	Interest Amount
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Stipulation
35038	Texas-New Mexico Power Company	Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs
40627	Austin Energy	Rate Issues
45188	Oncor Electric Delivery Company, et al.	Federal Inc. Taxes; Cost of Capital
46238	NextEra, Oncor	Federal Income Taxes
45414	Sharyland Utilities, et al.	Federal Income Taxes
46936	Southwestern Public Service Co.	Wind Facilities—Rate Treatment
46936	Southwestern Public Service Co.	Testimony in Support of Stipulation
46957	Oncor Electric Delivery Company	Testimony in Support of Stipulation (included in AIS item #420)
47527	Southwestern Public Service Company	Testimony in Support of Stipulation
48401	Texas-New Mexico Power Company	Testimony in Support of Stipulation

**LIST OF TESTIMONIES  
BY DARRYL TIETJEN (cont.)**

48439	Entergy Texas	Testimony in Support of Stipulation (Rate Case Exp)
48929	Oncor Electric Delivery Company, Sharyland Utilities, LP, et al.	Rate-Related Issues
49308	AEP Texas, Inc.	Testimony in Support of Stipulation (Financing Order)
49421	CenterPoint Energy Houston Electric, LLC	Financial Protection Measures; Securitization-Related ADFIT
49421	CenterPoint Energy Houston Electric, LLC	Testimony in Support of Stipulation
49494	AEP Texas	Financial Protection Measures; Securitization-Related ADFIT
49494	AEP Texas	Testimony in Support of Stipulation
49831	Southwestern Public Service Company	Testimony in Support of Stipulation
49849	El Paso Electric Company, et al.	Accounting Issues
49849	El Paso Electric Company, et al.	Testimony in Support of Stipulation
49923	Corix Utilities	Testimony in Support of Stipulation
50945	Comanche Peak Power Company	Testimony in Support of Supplemented Application
51100	Lubbock Power & Light	Testimony in Support of Stipulation