



Ohio Legislative Service Commission

Bill Analysis

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(As Introduced)

Sen. Balderson

BILL SUMMARY

- Permits an electric distribution utility (EDU) to apply to the Public Utilities Commission (PUCO) for a financing order authorizing the issuance of bonds to recover uncollected "phase-in costs" (and carrying charges) that have been approved by the PUCO for securitization or deferral prior to the bill's effective date.
- Requires financing orders to be consistent with Ohio's electric services policy and to be reasonably expected to result in cost savings to customers and reasonably expected to mitigate rate impacts as compared with traditional financing or recovery methods.
- Specifies that financing orders are irrevocable and remain in effect until the bonds and financing costs on the bonds have been paid in full.
- Permits an EDU under a financing order to impose and collect phase-in-recovery charges on customers and certain persons and entities in the EDU's service area, in accordance with a PUCO-approved adjustment mechanism, to recover the uncollected phase-in costs and financing costs on the bonds.
- Specifies that the charges are nonbypassable as long as bonds are outstanding and phase-in costs and financing costs have not been recovered in full.
- Specifies that for regulation and ratemaking purposes, the charges are not to be considered revenue of the EDU, the bonds are not to be considered debt of the EDU, and the phase-in costs or financing costs are not to be considered costs of the EDU.
- Specifies that phase-in-recovery bonds under a financing order do not involve a pledge of full faith and credit by the state or its subdivisions.
- Exempts the phase-in-recovery revenues from taxation by municipalities.

- Provides for the creation of "phase-in-recovery property," meaning the property, rights, and interests of an EDU or an assignee under a financing order, and contains provisions regarding transference, conveyance, pledging of property for payment of bonds, and perfection of security interests.
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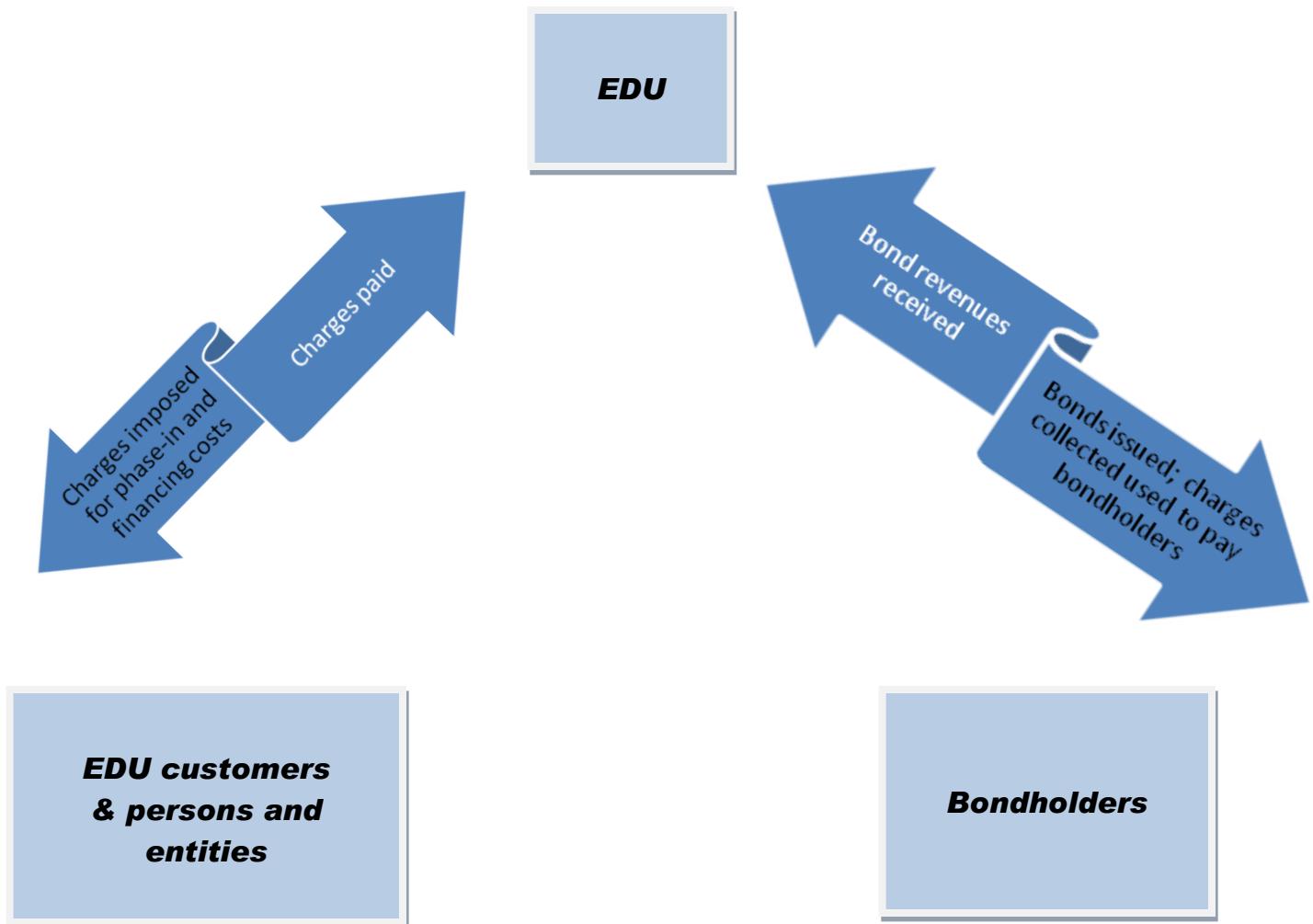


CONTENT AND OPERATION

Financing orders

Overview

The bill permits an electric distribution utility (EDU) to apply to the Public Utilities Commission (PUCO) for a financing order. The order, if approved, must authorize the EDU to issue bonds to recover uncollected "phase-in costs" that have been previously approved by the PUCO under current and former law. The order must also permit the EDU to impose and collect charges (called "phase-in-recovery charges" discussed below) on customers and persons and entities in the EDU's service area, in accordance with an approved mechanism, to recover the uncollected phase-in costs and the approved financing costs on the phase-in-recovery bonds.¹



¹ R.C. 4928.231.

An EDU is, under current law, a for-profit electric utility that supplies at least retail electric distribution service. "EDU" excludes municipal electric utilities and billing and collection agents.²

Phase-in costs

The bill defines phase-in costs as costs, including carrying charges, that have been authorized by the PUCO to be securitized or deferred as regulatory assets, prior to the effective date of the bill, pursuant to a final order for which appeals have been exhausted, under one of the following proceedings:

- a standard rate-increase case;
- a proceeding to establish a standard service offer (SSO), which could be done through an electric security plan (ESP), a market-rate offer (MRO), or an application for approval of both an ESP and an MRO;
- under prior law that required an EDU to file with the PUCO a market-based SSO, following the EDU's market development period.³

Some of the costs that the PUCO has been able to authorize for securitization or deferral under the proceedings described above are costs for fuel, purchased power, compliance with federal emission standards and state renewable-energy benchmarks, economic development and energy efficiency programs, costs related to the competitive bidding process for procuring generation as part of an MRO, demand-side management costs, Percentage of Income Payment Plan arrears, future nuclear decommissioning costs, and other costs of rendering service.⁴

Financing costs

"Financing costs" are defined as:

- principal, interest, and redemption premiums;
- payments required under ancillary agreements;
- amounts for funding or replenishing a reserve account or another account established under a financing document relating to phase-in-recovery bonds;

² R.C. 4928.01 (not in the bill).

³ R.C. 4928.23(J).

⁴ R.C. 4909.15, 4909.18, 4928.01(A)(26), 4928.142, 4928.143, and 4928.144 (not in the bill).



- costs of retiring or refunding existing debt and equity securities in connection with the issuance of phase-in-recovery bonds;
- costs to modify any indenture, financing agreement, security agreement, or other agreement relating to phase-in-recovery bonds;
- costs to obtain any consent, release, waiver, or approval from a bondholder necessary for issuing phase-in-recovery bonds;
- taxes, franchise fees, or license fees imposed on phase-in-recovery revenues;
- costs related to issuing or servicing phase-in-recovery bonds or related to obtaining a financing order, including servicing fees and expenses, trustee fees and expenses, legal fees and expenses, administrative fees, placement fees, underwriting fees, capitalized interest and equity, and rating-agency fees;
- any other similar costs that the PUCO finds appropriate.⁵

Applications

An application for a financing order is to include all of the following:

- a description of the phase-in costs for which recovery is sought;
- the expected term for recovery of the phase-in costs for each series of bonds;
- an estimate of the date that each series of bonds are expected to be issued;
- an estimate of the financing costs for the issuance of each series of bonds;
- an estimate of the amount of phase-in-recovery charges necessary to recover the phase-in costs and financing costs set forth in the application, and the calculation for that estimate;
- a description of a proposed adjustment mechanism for the imposition and collection of phase-in-recovery charges;
- for phase-in-recovery charges not subject to allocation under an existing order, a proposed methodology for allocation of the charges;

⁵ R.C. 4928.23(E).



- a description and valuation of how the issuance of the bonds, including financing costs, will both result in cost savings and mitigate rate impacts to customers when compared to the use of other financing mechanisms or cost-recovery methods; and
- any other information required by the PUCO.⁶

Standard for approval

The bill directs the PUCO to issue a financing order if it finds that the issuance of the phase-in-recovery bonds and the phase-in-recovery charges are both reasonably expected to result in cost savings to customers and reasonably expected to mitigate rate impacts as compared with traditional financing mechanisms or traditional cost-recovery methods available to the EDU. The PUCO may not issue a financing order unless it determines that the financing order is consistent with Ohio's current electric services policy.⁷ This policy includes ensuring adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service, among many other policy objectives.⁸

Items established in financing orders

In general, a financing order must set forth the PUCO's approval of the items required in the application. Specifically, all of the following are to be included in a financing order issued by the PUCO:

- the maximum amount and a description of the phase-in costs that may be recovered through the phase-in-recovery bonds issued under the order;
- a description of the financing costs that may be recovered through phase-in-recovery charges, and the recovery period;
- the maximum term of the phase-in-recovery bonds;
- a description of the adjustment mechanism for the imposition and collection of the phase-in-recovery charges;

⁶ R.C. 4928.231.

⁷ R.C. 4928.232(D).

⁸ R.C. 4928.02 (not in the bill).



- for phase-in-recovery charges not subject to allocation under an existing order, a description of the methodology and calculation for charge allocation;
- a description of the "phase-in-recovery property" created by the financing order, which is basically the property, rights, and interests of an EDU or an assignee under the financing order;
- any other provision that the PUCO considers appropriate to ensure the full and timely imposition, charging, collection, and adjustment of the phase-in-recovery charges.⁹

Irrevocability

The bill states that a final financing order is irrevocable. In addition, the PUCO may not reduce, impair, postpone, or terminate the phase-in-recovery charges authorized in the final financing order or "impair the property or the collection or recovery of phase-in costs."¹⁰

EDU discretion

The bill specifies that under a final financing order, the EDU retains sole discretion regarding whether to assign, sell, or otherwise transfer phase-in-recovery property, or to cause phase-in-recovery bonds to be issued, including the right to defer or postpone assignment, sale, transfer, or issuance.¹¹

When EDU elects not to issue bonds

If an EDU elects not to finance phase-in costs and related carrying charges through the issuance of phase-in-recovery bonds as authorized in a final financing order, those costs and charges must be recovered as previously authorized by the PUCO.¹²

Financing-order proceedings

The PUCO must take action not later than 135 days after an application for a financing order is filed, by issuing a financing order, granting the application in whole

⁹ R.C. 4928.23(K) and 4928.232(E).

¹⁰ R.C. 4928.235(B).

¹¹ R.C. 4928.235(B).

¹² R.C. 4928.237(C).



or with modifications, or by suspending or rejecting the application. In the case of a suspension, the PUCO must notify the EDU, and may direct the EDU to provide additional information. The PUCO then has 90 days to take additional action, by issuing a financing order, granting the application in whole or with modifications, or by rejecting the application.¹³

The PUCO must publish a schedule of the financing-order proceeding within 30 days after the filing of an application for a financing order.¹⁴

Rehearings

Petitions for rehearing of a PUCO order on a financing-order application may be filed within 30 days after the order's issuance. If the PUCO denies the petition, parties may petition the Supreme Court for review within 60 days after the PUCO issues the denial order. The same applies for a PUCO order after rehearing; parties may petition the Supreme Court for review within 60 days after issuance of the order after rehearing. Petitions for Supreme Court review must be served upon the PUCO Chairperson personally or by service at the PUCO's office.

The bill states that because delay in the determination of an appeal will delay the issuance of phase-in-recovery bonds, thereby diminishing savings to customers, the Supreme Court must proceed to hear and determine the action as expeditiously as practicable and must give the action precedence over other matters not accorded similar precedence by law.

If any phase-in costs or financing order is or are subject to review by the PUCO or the Supreme Court, the bill prohibits the EDU from issuing phase-in-recovery bonds based on those costs or that financing order until all appellate reviews, including any appellate review following a PUCO decision on remand, have been exhausted.¹⁵

Financing order effective times

The bill specifies that a financing order takes effect when it is final. The following chart, with check marks indicating events resulting in a final order, illustrates the timing:¹⁶

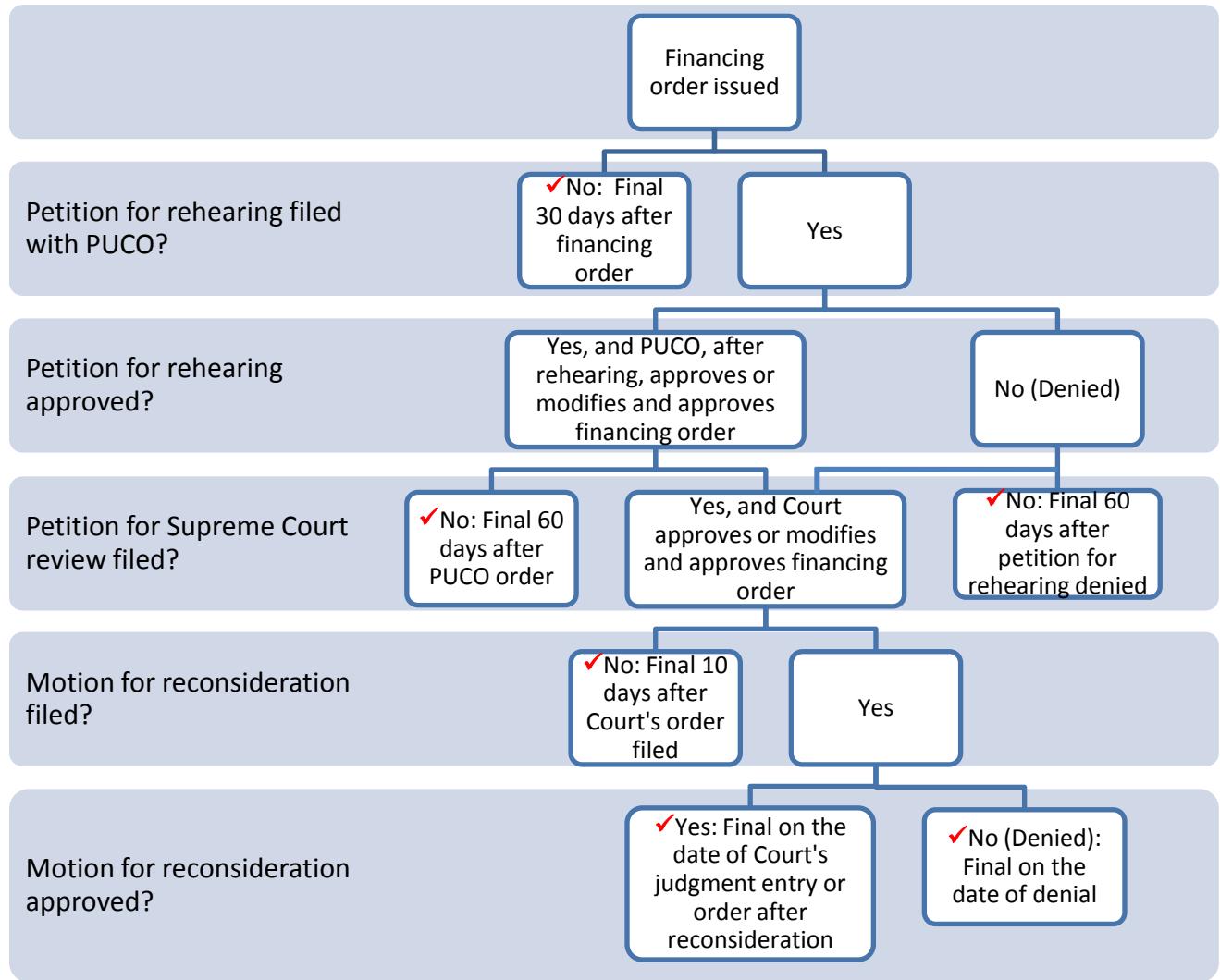
¹³ R.C. 4928.232(C).

¹⁴ R.C. 4928.232(B).

¹⁵ R.C. 4928.233(A), (B), and (D).

¹⁶ R.C. 4928.233(E).





If the Supreme Court remands a financing order back to the PUCO, the same timing in the chart above applies to the remanded order, up to and including the 60-day effective times.¹⁷

The bill specifies that a final financing order remains in effect until the phase-in-recovery bonds issued under the final financing order and all financing costs related to the bonds have been paid in full. It also specifies that a final financing order remains in effect and unabated notwithstanding the bankruptcy, reorganization, or insolvency of the EDU or any affiliate, or the commencement of any judicial or nonjudicial proceeding on the final financing order.¹⁸

¹⁷ R.C. 4928.233(E)(7).

¹⁸ R.C. 4928.235(A).

Law governing proceedings

The bill specifies that any "rehearing or review on appeal" for a financing order is governed by Chapter 4903. of the Revised Code, which governs PUCO hearings, rehearings, and all other PUCO proceedings.¹⁹ In a separate provision, the bill specifies that the same chapter governs "[p]roceedings on an application [for a financing order]," *but only to the extent* that Chapter 4903. is not inconsistent with the requirement that the PUCO publish a schedule of proceedings, the 135-day requirement for PUCO action, the bill's suspension provisions, the bill's general party-standing provision (discussed below), and the standard for approval of financing orders.²⁰ These two governing-law provisions may cause confusion so far as there is overlap between the proceedings to which they apply.

Party standing

For a petition for PUCO rehearing in a financing-order proceeding, the bill gives standing to "any party" to the proceeding.²¹ For a petition for review by the Supreme Court, the bill gives standing to "any party aggrieved by the issuance" of a PUCO order after rehearing or a PUCO decision denying rehearing.²² But, another provision gives party standing to participate in *any* financing-order proceeding to "any party that participated in the proceeding in which phase-in costs were [originally] approved" under a current-law SSO (MRO or ESP) proceeding.²³ As this latter provision sets a different standard for party participation than the provisions for rehearing petitions and Supreme Court review, there may be confusion as to which parties have standing.

Further, the provision that gives party standing to parties that participated in current-law SSO proceedings, in which phase-in costs were originally approved,²⁴ may exclude parties who participated in other proceedings in which phase-in costs were originally approved. Such an exclusion would likely conflict with the scope of the bill because the bill permits financing orders for not only phase-in costs approved under a current-law SSO proceeding, but also phase-in costs approved under a standard rate-

¹⁹ R.C. 4928.233(C).

²⁰ R.C. 4928.232(A).

²¹ R.C. 4928.233(A).

²² R.C. 4928.233(B).

²³ R.C. 4928.232(A).

²⁴ R.C. 4928.232(A).



increase case, as well as under prior law that required an EDU to file a market-based SSO following the EDU's market development period.²⁵

Bond terms and conditions

The bill requires the PUCO, in a financing order, to afford an EDU flexibility in establishing the terms and conditions for phase-in-recovery bonds, to accommodate changes in market conditions (that involve repayment schedules, interest rates, financing costs, collateral requirements, and required debt service and other reserves) and the ability of the EDU, at its option, to effect a series of issuances of such bonds and correlated assignments, sales, pledges, or other transfers of phase-in-recovery property (discussed below). The bill requires any changes made to bond terms and conditions to be in conformance with the financing order.²⁶

Phase-in-recovery charges

As described above, an approved financing order must authorize the EDU to impose and collect phase-in-recovery charges, on customers and persons and entities in the EDU's service area, in accordance with an "adjustment mechanism," to recover uncollected approved phase-in costs and approved phase-in-recovery bond financing costs.²⁷ For the imposition of the charges initially, the PUCO must require, in a financing order, that after establishment of the final terms of each issuance of bonds, but prior to the issuance, the EDU must determine the phase-in-recovery charges that result from the adjustment mechanism in the financing order. The bill specifies that these initial charges are final and effective upon the issuance of the bonds, without further PUCO action.²⁸

Adjustments

The bill requires the EDU to file with the PUCO at least annually, or more frequently as provided in the final financing order, a schedule applying the adjustment mechanism to the phase-in-recovery charges authorized under the order. The schedule must be based on estimates of consumption for each customer class "and other mathematical factors." With the schedule, the EDU must request approval to make the charge adjustments. The bill requires that the PUCO's review of this request be limited to a determination of mathematical error in the application of the adjustment

²⁵ R.C. 4928.23(J).

²⁶ R.C. 4928.232(F).

²⁷ R.C. 4928.231(A)(2).

²⁸ R.C. 4928.232(H).



mechanism to the charges. The request is to be deemed approved and the adjustments are to go into immediate effect if the PUCO does not approve the request within 60 days.

The bill specifies that no adjustment approved or deemed approved in any way affects the irrevocability of the final financing order.²⁹

Applicability

The bill requires that the phase-in-recovery charges apply to both of the following, subject to the methodology approved in the final financing order:

- all EDU customers located within the EDU's service area;
- "[a]ny person or entity located within the [EDU's] service area that may subsequently receive retail distribution service from another [EDU] operating in the same service area."

The bill specifies that if customers are or become entitled to purchase generation service from a provider other than an EDU, the EDU subject to the final financing order must collect the charges directly from those customers.³⁰

Nonbypassability

The bill specifies that as long as phase-in-recovery bonds issued under a final financing order are outstanding and the related phase-in costs and financing costs have not been recovered in full, the charges authorized under the final financing order are nonbypassable. "Nonbypassable" means that the charges cannot be avoided by any customer or other person obligated to pay them.³¹

Separate from base rates

The bill requires that the phase-in-recovery charges be collected by the EDU or the EDU's successors or assignees, or a collection agent, in full through a charge that is separate and apart from the EDU's base rates.³²

²⁹ R.C. 4928.238.

³⁰ R.C. 4928.239(B) and (C).

³¹ R.C. 4928.239(A) and (B).

³² R.C. 4928.239(D).



Retirement and refunding of bonds

The bill permits the PUCO, at the request of the EDU, to commence a proceeding and issue a subsequent financing order that retires and refunds phase-in-recovery bonds issued under a final financing order. The bill requires that the subsequent financing order satisfy the bill's requirements applicable to an original financing order.

Upon retirement of the refunded bonds and the issuance of new phase-in-recovery bonds, the bill requires the PUCO to adjust the phase-in-recovery charges accordingly.³³

Phase-in-recovery property

As mentioned above, an approved financing order authorizes the creation of "phase-in-recovery property,"³⁴ which the bill defines as the property, rights, and interests of an EDU or assignee under a final financing order, including the right to impose, charge, and collect the phase-in-recovery charges, and including the right to obtain adjustments to those charges, and any revenues, receipts, collections, rights to payment, payments, moneys, claims, or other proceeds arising from the rights and interests created under the final financing order.³⁵ The bill permits a financing order to specify that the creation of phase-in-recovery property be simultaneous with the (1) sale of that property to an assignee as provided in the application and (2) pledge of the property to secure phase-in-recovery bonds.³⁶

May be transferred, sold, conveyed, or assigned

The bill permits phase-in-recovery property to be transferred, sold, conveyed, or assigned to any person or entity not affiliated with the EDU or to any affiliate of the EDU created for the limited purpose of acquiring, owning, or administering that property, issuing phase-in-recovery bonds under the final financing order, or a combination of these purposes.³⁷

³³ R.C. 4928.236.

³⁴ R.C. 4928.231(A)(3).

³⁵ R.C. 4928.23(K).

³⁶ R.C. 4928.232(G).

³⁷ R.C. 4928.234(A).



Transfer of an interest

The bill requires that a transfer of an interest in phase-in-recovery property may be created only when all of the following have occurred:

- The financing order has become final and taken effect.
- The documents evidencing the transfer of the property have been executed and delivered to the assignee.
- Value has been received for the property.

The bill also states that any sale, assignment, or transfer of the property under a final financing order is an absolute transfer and true sale of, and not a pledge of or secured transaction relating to, the seller's right, title, and interest in, to, and under the property. But the bill requires that the documents governing the transaction expressly state that the transaction is a sale or other absolute transfer.³⁸

May be pledged to secure payment

The bill permits all or any portion of the phase-in-recovery property to be pledged to secure the payment of phase-in-recovery bonds, amounts payable to financing parties and bondholders, amounts payable under any ancillary agreement, and other financing costs.³⁹

A "financing party" is defined as any trustee, collateral agent, or other person acting for the benefit of any bondholder, or any party to an ancillary agreement, the rights and obligations of which relate to or depend upon (1) the existence of phase-in-recovery property, (2) the enforcement and priority of a security interest in phase-in-recovery property, (3) the timely collection and payment of phase-in-recovery revenues, or (4) a combination of these factors.⁴⁰ The bill defines "ancillary agreement" as any bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement, or other similar agreement or arrangement entered into in connection with the issuance of phase-in-recovery bonds that is designed to promote the credit quality and marketability of the bonds or to mitigate interest-rate increases.⁴¹

³⁸ R.C. 4928.2313(A).

³⁹ R.C. 4928.234(B).

⁴⁰ R.C. 4928.23(H).

⁴¹ R.C. 4928.23(A).



Existing property right

The bill specifies that the phase-in-recovery property constitutes an existing, present property right, notwithstanding any requirement that the imposition, charging, and collection of phase-in-recovery charges depend on the EDU continuing to deliver retail electric distribution service or continuing to perform its servicing functions relating to the collection of the charges or on the level of future energy consumption. The bill also specifies that the property exists regardless of whether the charges have accrued or have been billed or collected. Under the bill, the property exists notwithstanding any requirement that the value or amount of the property is dependent on the future provision of service to customers by the EDU. Finally, the bill specifies that phase-in-recovery property continues to exist until the bonds issued under the final financing order and all financing costs relating to the bonds are paid in full.⁴²

Perfection of security interests

The bill specifies that a security interest in phase-in-recovery property is created, valid, and binding when the security agreement is executed and delivered, or when value is received for the phase-in-recovery bonds, whichever happens later. The security interest is to attach without any physical delivery of collateral or other act. Upon the filing of a financing statement with the Office of the Secretary of State, the lien of the security interest is to be valid, binding, and perfected against all parties having claims against the person granting the security interest, regardless of whether the parties have notice of the lien.⁴³ A "financing statement" is defined as a record composed of an initial financing statement and any filed record or records relating to the initial financing statement.⁴⁴ Also upon the filing of the finance statement, a transfer of an interest in the phase-in-recovery property is to be perfected against all parties having claims of any kind, other than creditors holding a prior security interest, ownership interest, or assignment in the property previously perfected. The bill requires the Secretary of State to maintain these financing statements in the same manner as financing statements filed by a transmitting utility perfecting a security interest in collateral under existing law governing secured transactions; the filing of the statements is to be governed by the same applicable law.

The bill states that a security interest in phase-in-recovery property is a continuously perfected security interest and has priority over any other lien, created by

⁴² R.C. 4928.234(C) and (D).

⁴³ R.C. 4928.2312(C).

⁴⁴ R.C. 4928.23(I); R.C. 1309.102 (not in the bill).



operation of law or otherwise, that may subsequently attach to that property "or those rights or interests" unless the holder of the lien has agreed in writing otherwise.

The bill specifies that the priority of a security interest in phase-in-recovery property is not affected by commingling of phase-in-recovery revenues with other amounts.⁴⁵ "Phase-in-recovery revenues" is defined as all revenues, receipts, collections, payments, moneys, claims, or other proceeds arising from phase-in-recovery property.⁴⁶ Any pledgee or secured party is to have a perfected security interest in the amount of all phase-in-recovery revenues that are deposited in any cash or deposit account of the EDU in which the revenues have been commingled with other funds. The bill requires that any other security interest that may apply to those funds be terminated when the funds are transferred to a segregated account for an assignee or a financing party.

The bill also specifies that no application of the adjustment mechanism for phase-in-recovery charges affects the validity, perfection, or priority of a security interest "in or the transfer of" phase-in-recovery property under the final financing order.⁴⁷

Characterization of phase-in-recovery property rights

The bill declares that the characterization of the sale, assignment, or transfer of phase-in-recovery property as an absolute transfer and true sale, and the corresponding characterization of the property interest of the purchaser is effective and perfected against all third parties, and may not be affected or impaired by, among other things, the occurrence of any of the following:

- commingling of phase-in-recovery revenues with other amounts;
- the retention by the seller of a partial or residual interest in the phase-in-recovery property or retention of the right to recover costs associated with taxes, franchise fees, or license fees imposed on the collection of phase-in-recovery revenues;
- any recourse that the purchaser or an assignee may have against the seller;
- any indemnification rights, obligations, or repurchase rights made or provided by the seller;

⁴⁵ R.C. 4928.2312(C)(2) and (D)(1) and (2); R.C. 1309.501 (not in the bill).

⁴⁶ R.C. 4928.23(L).

⁴⁷ R.C. 4928.2312(D)(2) and (3).



- the obligation of the seller to collect phase-in-recovery revenues on behalf of an assignee;
- the treatment of the sale, assignment, or transfer for tax, financial reporting, or other purposes;
- any application of the adjustment mechanism under the final financing order.⁴⁸

Governing law

The bill states that the law governing the validity, enforceability, attachment, perfection, priority, and exercise of remedies with respect to the transfer of phase-in-recovery property, or creation of a security interest in the property, phase-in-recovery charges, or final financing order is to be the law set forth in the bill, specifically R.C. 4928.23 to 4928.2318.⁴⁹ In a separate provision, the bill states that, except for the law governing the Secretary of State's maintenance of financing statements for secured transactions, the creation, perfection, and enforcement of any security interest in phase-in-recovery property is to be governed by the bill and not Ohio's current commercial-transaction laws.⁵⁰ The bill also states that the bill's provisions control in the event of a conflict with any other law regarding the attachment, assignment, or perfection, the effect of perfection, or priority of any security interest in or transfer of phase-in-recovery property under a final financing order.⁵¹

Reference to applicable law in description

The bill requires a description of phase-in-recovery property in a transfer or security agreement and a financing statement to refer to the applicable section of the bill (specifically R.C. 4928.2312) and the final financing order creating the property. This requirement applies to all purported transfers of, and all purported grants of, liens on or security interests in that property, regardless of whether the related transfer or security agreement was entered into, or the related financing statement was filed, before or after the bill's effective date.⁵²

⁴⁸ R.C. 4928.2313.

⁴⁹ R.C. 4928.2316(A).

⁵⁰ R.C. 4928.2312(A).

⁵¹ R.C. 4928.2316(B).

⁵² R.C. 4928.2312(B).



Limitations on PUCO authority

The bill limits the PUCO's authority in exercising its powers and carrying out its duties regarding regulation and ratemaking by prohibiting the PUCO from doing any of the following:

- considering phase-in-recovery bonds issued under a final financing order to be the debt of the EDU;
- considering the phase-in-recovery charges under the final financing order to be revenue of the EDU;
- considering the phase-in costs or financing costs authorized under the final financing order to be the costs of the EDU;
- ordering or otherwise requiring, directly or indirectly, an EDU to use phase-in-recovery bonds to finance the recovery of phase-in costs or related carrying charges;
- refusing to allow the recovery of phase-in costs or related carrying charges solely because the EDU has elected or may elect to finance those costs and charges through a financing mechanism other than the issuance of phase-in-recovery bonds.⁵³

Phase-in-recovery bonds not general obligations

The bill states that phase-in-recovery bonds issued under a final financing order do not constitute a debt or a pledge of the faith and credit or taxing power of the state or of any county, municipality, or any other political subdivision of Ohio. It further states that bondholders have no right to have taxes levied by the state or the taxing authority of any county, municipality, or any other political subdivision for the payment of the principal of or interest on the bonds. The bill also declares that the issuance of phase-in-recovery bonds does not, directly, indirectly, or contingently, obligate the state or any county, municipality, or political subdivision to levy any tax or make any appropriation for payment of the principal of or interest on the bonds.⁵⁴

⁵³ R.C. 4928.237.

⁵⁴ R.C. 4928.2314(B).



Exemption of bond revenues from local taxation

The bill specifies that the imposition, charging, collection, and receipt of phase-in-recovery revenues are not subject to taxation by any Ohio municipality.⁵⁵

Utility default on payment of revenues

If an EDU defaults on any required payment of phase-in-recovery revenues, a court, upon application by an interested party and without limiting any other remedies available to the applicant, must order the sequestration and payment of the revenues for the benefit of bondholders, any assignee, and any financing parties. The court's order is to remain in full force and effect notwithstanding any bankruptcy, reorganization, or other insolvency proceedings with respect to the EDU or any affiliate.

An EDU's customers are to be held harmless for an EDU's failure to remit any required payment of phase-in-recovery revenues.

The bill states that an EDU's failure to remit any required payment of phase-in-recovery revenues in no way is to affect the phase-in-recovery property or the rights to impose, collect, and adjust phase-in-recovery charges. The bill further states that phase-in-recovery property and the interests of an assignee, bondholder, or financing party in that property under a financing agreement are not subject to setoff, counterclaim, surcharge, or defense by the EDU or any other person, including as a result of the EDU's failure to provide past, present, or future services, or in connection with the bankruptcy, reorganization, or other insolvency proceeding of the EDU, any affiliate, or any other entity.⁵⁶

Utility successor duties

Any successor to an EDU subject to a final financing order is to be bound by the bill's requirements. The successor must perform and satisfy all of the EDU's obligations under the final financing order, in the same manner and to the same extent as the EDU, including the obligation to collect and pay phase-in-recovery revenues. The bill grants the successor the same rights of the EDU, in the same manner and to the same extent.⁵⁷

⁵⁵ R.C. 4928.2314(A).

⁵⁶ R.C. 4928.2310.

⁵⁷ R.C. 4928.2311.



Prohibition of state interference

The bill includes a declaration that the state pledges to and agrees with the bondholders, any assignee, and any financing parties under a final financing order that the state will not take or permit any action that impairs the value of phase-in-recovery property or revises the phase-in costs for which recovery is authorized. The declaration continues: that the state pledges and agrees that, except for the PUCO's review of adjustments to phase-in-recovery charges, the state will not reduce, alter, or impair phase-in-recovery charges that are for the benefit of the bondholders, any assignee, and any financing parties, until any principal, interest, and redemption premium are paid or performed in full (in respect of phase-in-recovery bonds, all financing costs, and all amounts to be paid to an assignee or financing party under an ancillary agreement).

The bill permits any person who issues phase-in-recovery bonds to include the above pledge in the bonds, ancillary agreements, and documentation related to the issuance and marketing of the bonds.⁵⁸

Interaction with governmental aggregation

The bill requires that phase-in-recovery charges be allocated consistently with Ohio's current governmental aggregation law that requires the PUCO to make a proportionate benefit determination for aggregation groups subject to an ESP or MRO. Specifically, the governmental aggregation law states that aggregation customers are responsible only for such portion of a surcharge under an MRO or an ESP that is proportionate to the benefits, as determined by the PUCO, that the aggregation group receives.⁵⁹ The bill also specifies that Ohio's aggregation law shall not result in less than the full and timely imposition, charging, collection, and adjustment by an EDU, its assignee, or any collection agent, of the phase-in-recovery charges.⁶⁰

Repealed laws have no effect on actions taken

The bill specifies that if any of its provisions (specifically R.C. 4928.23 to 4928.2318) is held to be invalid or is superseded, replaced, repealed, or expires for any reason, the occurrence shall not affect any action allowed under those provisions that is taken prior to that occurrence by the PUCO, an EDU, an assignee, a collection agent, a

⁵⁸ R.C. 4928.2315.

⁵⁹ R.C. 4928.20(I), 4928.231(A)(2) and (B)(6), 4928.232(E)(4), and 4928.238(B).

⁶⁰ R.C. 4928.20(I).



financing party, a bondholder, or a party to an ancillary agreement. The bill further states that any such action remains in full force and effect.⁶¹

Assignee not a utility

The bill states that an assignee or financing party is not to be considered an EDU or person providing electric service by virtue of engaging in the transactions described in the bill.⁶²

COMMENT

The bill is unclear as to who is required to pay phase-in-recovery charges when it states that the charges are to be imposed on "[a]ny person or entity located within the [EDU's] service area that may subsequently receive retail electric distribution service from another [EDU] operating in the same service area."⁶³ This provision is unclear as to whether these persons or entities are customers of the EDU.

HISTORY

ACTION	DATE
Introduced	11-03-11

⁶¹ R.C. 4928.2317.

⁶² R.C. 4928.2318.

⁶³ R.C. 4928.239(B).

