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Securitization in a Utility Context

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Executive Summary

Securitization is a targeted, special-purpose financing tool that can deliver customer savings when limited to discrete, well-defined, non-recurring costs and supported by a durable statutory framework. Its effectiveness depends on enabling legislation, a non-bypassable surcharge, and a commission financing order with a strong, uncapped true-up. Without these protections, the bonds will not achieve the high credit quality and low interest rates that underpin their intent.[1] Applied in this fit-for-purpose context, securitization can smooth rate shocks and reduce near-term revenue requirements. This report evaluates when and how utility cost-recovery securitization can lower customer bills and stabilize rates, and when its use can impair affordability, credit quality, and long-run financing costs. The analysis focuses on statutory design, credit structure, system-wide exposure, and impacts on non-securitized capital.

Securitization is not a substitute for traditional debt-and-equity financing of ongoing rate-base investment or operations. By placing securitized bondholders first in line through a legally protected, dynamically trued-up surcharge, risk is reallocated toward the utility's remaining debt and equity investors. Over time, this "risk compression" can raise the utility's long-run cost of capital on the much larger non-securitized portion of rate base, potentially more than offsetting short-term bill savings. Broad refinancing of operating assets could also trigger make-whole/breakage costs on existing debt, adding near-term burdens without creating new customer value.

Securitization should be used in a measured and carefully calibrated way, taking into account overall, system-wide financing needs and the impact securitization has on traditional utility financing. As long-dated, irrevocable surcharges accumulate or grow as a percentage of overall customer bills, especially when coupled with declining usage or customer migration that cause true-ups to rise on a shrinking base, affordability, political durability, and investor appetite are tested. These conditions make achieving the highest credit rating outcomes less likely and can erode financial flexibility and raise financing costs when utilities must continue investing in safety, reliability, and compliance with other mandates. Accordingly, securitization should remain an infrequent, issue-specific mechanism to finance extraordinary, past costs (e.g., storm restoration, wildfire recovery, or early plant retirements), not a standing mechanism for routine, ongoing capital requirements or operating expenses.

[1] S&P Global Ratings, *Credit FAQ: The Rationale Behind U.S. Utility Securitization…* (Mar. 4, 2024).

Securitization in a Utility Context

Introduction

In the utility sector, securitization is a specialized financing mechanism that replaces a portion of traditional corporate debt and equity with state-authorized bonds issued by a bankruptcy-remote special purpose vehicle supported by a dedicated, non-bypassable charge on customer bills. The structure's goal is to obtain the highest realizable investment-grade ratings (AAA) and thus a lower cost of capital, enabled by statute and a financing order that establishes an irrevocable charge and a periodic true-up so collections always match bond obligations over time. Securitization enables utilities to recover sizable costs associated with large or unexpected events through the receipt of cash upon issuance of the bonds.[2] In U.S. practice, these features—legislative authorization, a commission financing order, and an uncapped true-up—are what support the high ratings and attractive interest rates relative to conventional utility financing.

Securitization's Potential Role and its Limits

Used in limited, well-defined circumstances, securitization can lower costs relative to traditional recovery by substituting very highly rated bonds for the utility's blend of corporate debt and equity. These well-defined circumstances typically involve extraordinary, discrete, and non-recurring costs. In the US, utilities have employed securitization to address significant storm or wildfire restoration cost recovery, extraordinary fuel or power costs, or the recovery of stranded assets when the traditional means of recovery through the regulatory process was deemed prohibitive. Its viability rests on the legislative/financing-order framework and the strength of the true-up on the non-bypassable charge.

The mere fact that securitized debt often carries a coupon rate (i.e., the fixed interest rate paid to bondholders over the life of the securitization, expressed as a percentage of the bond's face value) below a utility's weighted average cost of capital (WACC) does not mean securitization is appropriate or practical in all cases. Rather, its efficacy depends on the type of cost being securitized, size and timing, effect on the utility's credit profile, and long-term bill impacts given anticipated future costs and customer-base stability. Securitized bonds are most appropriate to finance the remaining book balance of assets that are no longer required to provide service, address financial challenges affecting access to traditional forms of debt and equity capital, and recover a balance that is known with certainty. Stranded costs that resulted from electric restructuring satisfied these criteria. Over time, securitization has expanded to include storm recovery costs, and other stranded cost recovery scenarios. Securitization has been used to recover the unamortized book value of early asset retirements or other costs that had either already occurred or were expected in the near term. It should not be used to finance unimpaired operating assets or in instances where a long time horizon

[2] S&P Global Ratings, "Credit FAQ: The Rationale Behind U.S. Utility Securitization and Reasons for Recent Growth" (Mar. 4, 2024).

is coupled with loosely defined parameters.

Customer Benefits are not Automatic

Whether securitization produces tangible rate benefits depends on the specific costs being financed, the duration and magnitude of the surcharge, and the degree of load or customer migration risk over the multi-decade life of the bonds. The core economics (and ultimately the bond pricing) hinge on rating-agency evaluations of charge resiliency, true-up effectiveness, and the stability of the customer base that will bear the surcharge.

Although collections under an irrevocable securitization surcharge are legally enforceable, *the affordability and distribution of those charges are not immune to risk*. If the customer base declines or usage materially drops, the per-customer burden of the fixed securitization charge must increase through true-ups. Rating agencies closely scrutinize this dynamic for securitized debt issuances because a shrinking base supporting a rising charge can weaken perceived charge stability. In such cases, the resulting rating outcome may be lower than expected, limiting the ability to realize the lowest-cost rates for customers and reducing the anticipated savings relative to traditional utility financing. Rating agencies will also take this dynamic into consideration when assessing the credit strength of the utility using securitized debt because affordability constraints can also challenge timely recovery of non-securitized costs, and non-securitized cost recovery is not supported by the same legislative, regulatory and rate mechanism protections.

As a result, securitization may not generate customer benefits when applied to ongoing operating assets or expenses, large or indeterminate cost items, or investments with uncertain timing. Any potential use of securitization must therefore be evaluated with exceptional care and analytical rigor. While securitization can be an effective tool for discrete, well-defined, non-recurring costs, its use must be justified by demonstrable and durable customer benefits.

This requires confirming not only that securitization will reduce total costs relative to conventional ratemaking mechanisms, but also that it will preserve the utility's long-term access to affordable capital—an essential condition for maintaining safe, reliable, and compliant utility operations. Equally important, securitization should not be deployed in ways that shift disproportionate or unsustainable obligations onto future customers. Under conditions of declining usage or a contracting customer base, a long-term fixed surcharge could heighten affordability challenges, concentrate costs on fewer remaining customers, and erode fairness and stability within the ratemaking framework.

For these reasons, securitization should be pursued only when a thorough, forward-looking analysis demonstrates that it will meaningfully reduce costs for today's customers without imposing undue costs, risks, rigidities, or inequities on tomorrow's customers.

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Investor and Credit Quality Considerations

Securitization does not eliminate risk, it reallocates it. The statutory protections and automatic true-up mechanism granted to securitized bondholders substantially reduce their risk exposure, but this protection is compensated for elsewhere in the capital structure. Residual business and financial risk are shifted to non-securitized investors, who must absorb a higher concentration of unprotected utility risk. As a result, securitization can increase leverage and fixed obligations at the utility, potentially weakening key credit metrics and pressuring corporate credit ratings. Higher risk borne by remaining creditors and equity holders can, in turn, raise the cost of capital for non-securitized utility investments. Rating agencies evaluate these zero-sum dynamics explicitly. Depending on its use, scope, and frequency, extensive reliance on securitization may offset near-term bill relief with higher long-run financing costs for essential utility operations.

Long-Term Constraints and Unintended Consequences

Because securitization charges are long-dated and irrevocable, they are inherently inflexible and can encumber future bill headroom and thereby limit the tool's availability in emergencies when it might be most valuable. Although the true-up mechanism helps ensure timely recovery of securitized charges by adjusting collections to actual usage, it does not lessen the rigidity of the underlying obligation. Instead, true-up mechanisms can amplify the burden on a shrinking or lower-usage customer base, further constraining remaining headroom. If securitization is applied to ongoing operations, a use case for which securitization was not originally designed, utilities may face reduced reinvestment flexibility and greater difficulty accessing low-cost capital for core activities. These constraints could intensify if customer usage declines or the customer base shrinks over time.

Massachusetts Statutory and Regulatory Guardrails

Massachusetts has established a regulatory framework for Climate Compliance Plans ("CCPs")[3] and is actively examining affordability and bill design.[4] Discussions in Massachusetts describe securitization as a potential tool that, if used, would require the legislative and regulatory features noted above (authorization, financing order, and a robust true-up). Recent analyses in Massachusetts policy circles also note the administration's 2025 Energy Affordability, Independence, and Innovation Act proposal (which, among other items, discussed securitization as a rate-mitigation tool) gives the option to but does not obligate a utility to utilize securitization, and notes that its use and any application should be subject to a public-interest finding relative to traditional ratemaking.[5]

[3] Massachusetts Department of Public Utilities (DPU) Order 20-80-B
[4] Massachusetts Department of Public Utilities (DPU) Docket 25-200
[5] Massachusetts Department of Public Utilities (DPU) Docket 24-15 *Investigation into Energy Burden and Affordability*

Traditional IOU Sources of Capital

Investor-owned utilities (IOUs) rely on a carefully constructed mix of debt and equity to finance their operations and capital investments. The utility's capital structure is designed to achieve the lowest reasonable weighted average cost of capital, while preserving the financial integrity necessary to maintain efficient access to capital markets on reasonable terms. Each component of the capital structure serves a distinct and complementary role:

Debt

Debt financing typically carries a lower cost than equity due to its priority in repayment and the contractual obligation to pay interest. For regulated utilities, debt helps keep financing costs manageable for customers because it is generally less expensive than equity capital. However, excessive reliance on debt increases financial leverage, which can weaken credit metrics, raise borrowing costs, and potentially undermine access to future financing.

Equity

Equity provides a critical financial cushion that absorbs business and operational risks. Because equity holders are last in line for repayment, equity carries more risk and therefore is more expensive than debt. Equity strengthens the utility's balance sheet, supports credit quality, and ensures the financial resilience necessary for long-term infrastructure investment. A healthy equity layer also gives utilities flexibility to manage unforeseen events, cost fluctuations, or revenue variability.

Importance of Maintaining an Optimal Capital Structure

For more than a century of U.S. utility regulation, commissions and financial practitioners have refined the principle that an optimal capital structure balances the lower cost of debt with the stability and loss-absorption capacity of equity. This balance is not theoretical—it is the product of decades of rate cases and regulatory decisions across many jurisdictions; all aimed at delivering outcomes that minimize long-run customer costs while preserving utility financial health.

A well-constructed capital structure produces the most efficient weighted average cost of capital. Deviations in either direction carry well-understood consequences. Excessive debt may temporarily lower costs, but it increases financial leverage, elevates credit risk, and ultimately raises interest costs as credit quality deteriorates. Conversely, relying too heavily on equity maintains strong financial metrics but raises the overall cost of capital, which increases customer rates relative to a more efficient mix.

Because of these tradeoffs, maintaining a sound and well-balanced capital structure has become a foundational regulatory priority. It is essential not only for keeping costs reasonable for customers, but also for supporting sustained infrastructure investment and ensuring stable, low-cost access to

capital markets. This long-established principle continues to guide regulatory commissions in setting just and reasonable rates and in safeguarding customers from the avoidable financing costs that arise when the capital structure drifts too far from its optimal range.

Overview of Securitization Financing of Utility Assets

Securitization is a specialized debt-financing structure that replaces the traditional mix of utility debt and equity with government-authorized, highly rated bonds. Instead of relying on the utility's balance sheet, securitization bonds are supported by a state-created property right (typically a non-bypassable customer charge) and issued through a legally isolated entity. This structure allows utilities to finance certain eligible costs at interest rates that are generally below those available through normal corporate borrowing. However, these benefits are not equivalent to accessing pure AAA-level financing.

Securitization carries incremental costs (including structuring fees, underwriting and issuance expenses, credit-enhancement requirements, and ongoing servicing and true-up administration) that must be recovered through the securitization charge. When these costs are incorporated, the effective all-in cost of securitized debt becomes higher than the nominal bond coupon alone and does not match the pricing of the very highest-rated benchmark bonds. As a result, while in certain circumstances securitization can offer meaningful savings relative to conventional utility financing, it is not as inexpensive as benchmark-based comparisons might suggest.

The fundamental objective of securitization is to lower the economic burden to customers associated with financing extraordinary costs by issuing AAA rated debt, which is often higher than the utility's own corporate credit rating. Achieving this rating is not incidental. It depends on a defined set of credit enhancements established through state legislation and regulatory action. These enhancements insulate investors from typical utility risks by (i) establishing repayment from a legislatively authorized, non-bypassable charge instead of general corporate revenues, and (ii) issuing the securities through a bankruptcy-remote special-purpose entity, thereby reinforcing the certainty of timely payment throughout the bond term.

A central element of utility securitization is the true sale of the dedicated property (typically a right to impose and collect a non-bypassable charge) to a bankruptcy-remote special-purpose vehicle (SPV). For storm costs, impaired assets, or other discrete costs, the property interest can be reasonably isolated and transferred without disturbing ongoing utility operations.

In contrast, applying this construct to a functioning gas network raises significant practical and legal complications. A physical asset such as a section of gas pipeline cannot be readily segmented, sold to an SPV, and operated independently. If it were, questions would immediately arise regarding who would make operational, safety, maintenance, and investment decisions for that portion of the system. If the securitization bond extends 10–20 years, and the underlying asset is assumed to

remain fully functional beyond that period, ownership at bond maturity becomes ambiguous. Would the pipeline revert to the utility, remain with the SPV, or require repurchase? Additional uncertainty emerges in a bankruptcy scenario: would bondholders, through the SPV, take possession of the gas line and be forced to sell it, potentially to an unregulated third party, thereby disrupting an integrated system that depends on unified operational control? These structural issues, combined with the mismatch between the bond term and the much longer useful life of gas infrastructure, underscore why a true-sale approach that works for discrete, non-operational assets may be impractical—if not infeasible—for essential, continuously operated utility networks.

Three core credit-enhancement features make securitization possible:

1. **Enabling Legislation (Financing Act)**
   A state statute authorizes the creation of a dedicated, non-bypassable securitization charge and legally protects the resulting "securitization property." This legislative foundation is critical because it ensures the state will not retroactively impair, alter, or revoke the charge over time.

2. **Financing Order (Regulatory Approval)**
   The state public utility commission (or equivalent regulator) issues a financing order that defines the specific costs to be securitized, the mechanics of the securitization charge, and the terms under which collections will occur. The financing order is irrevocable, which provides investors with long-term certainty that the surcharge will remain in effect until all securitization obligations are fully satisfied.

3. **True-Up Mechanism**
   A periodic adjustment mechanism—administered jointly by the regulator and the utility—ensures that securitization charge collections always match the required debt-service obligations. If collections fall short due to sales declines or customer migration, the charge is automatically adjusted upward. This feature is central to achieving the highest possible credit rating because it nearly eliminates repayment risk.

Scope, Precedent, and Evolving Uses

Since the late 1990s, investor-owned utilities have issued more than $80.9 billion in securitized bonds, with an additional $1.1 billion in pending or recently approved transactions. Historically, most of the securitization bonds issued by investor-owned utilities occurred during electric-industry restructuring, where securitization enabled utilities to finance stranded generating assets (both physical and contractual) at lower rates.[6] More recently, states have expanded the use of securitization to address a broader set of extraordinary or non-recurring utility costs, including storm and wildfire recovery and risk-mitigation programs, extreme fuel-price spikes, and retirement of

[6] NARUC, Mitigating Stranded Asset Risks to Utility Customers: Securitization & Coal Retirement (Feb. 2024).

uneconomic or stranded assets.

Across jurisdictions, these securitizations share a common pattern. They begin with legislative authorization, followed by case-specific regulatory review to determine whether a proposal is in the public interest relative to traditional ratemaking. Only if the commission finds that securitization lowers costs for customers and does not adversely affect system reliability or the utility's financial stability is the utility permitted (but not obligated) to proceed.

Appropriateness and Limitations of Securitizing Utility Assets

Securitization can be a beneficial financing tool, but only in narrow, well-defined circumstances. Its appropriateness depends on whether the costs involved are extraordinary, discrete, already incurred and non-recurring, and whether securitization demonstrably lowers customer costs relative to traditional ratemaking. Securitization can generally be appropriate when:

1. Costs are large, unexpected, and unavoidable, such as:
    - Catastrophic storm restoration costs
    - Wildfire related damages or mitigation
    - Extraordinary fuel-price spikes (e.g., Winter Storm Uri in Texas)
    - Early retirement of uneconomic or stranded electric generation assets that were prudent when placed into service but have become uneconomic or stranded due to market, policy, or technological changes.
2. The costs have already been incurred, are well-defined, and are not expected to recur.
3. The surcharge needed to recover securitized costs is small and stable, with minimal risk of customer migration.
4. The securitization will clearly and measurably reduce customer bills over the life of the bonds, as documented through regulatory analysis.
5. Credit quality is not impacted, and the utility retains access to traditional debt and equity markets on reasonable terms.

In these cases, securitization can function as a rate-stabilization or rate-mitigation tool, smoothing out large, one-time costs over a longer period at a lower interest rate.

Between 1997 and 2025, Investor-Owned Utilities (IOU's) have issued (or have pending) more than $82 billion of securitization bonds. The vast majority of that debt has been used to finance costs related to electric industry restructuring, wildfire and storm related costs. Table 1 below details the uses of securitization by purpose and total value.

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Table 1 – IOU Securitizations by Purpose

Purpose	Issued ($mm)	Pending ($mm)	Total ($mm)	% of Total
Transition to Retail Competition	$39,437	$0	$39,437	47.6%
Weather/Storm-Related Costs	$16,729	$0	$16,729	20.2%
Wildfire	$7,395	$0	$7,395	8.9%
Plant Early Retirement	$5,593	$0	$5,593	6.7%
Other[7]	$12,688	$1,090	$13,778	16.6%
Total	**$81,842**	$1,090	**$82,932**	**100%**

While securitization has benefits in specific situations, it is not a general-purpose financing mechanism, and its misuse carries significant long-term risks.

Securitization is generally ***not*** appropriate when:

1. Costs are ongoing, operational, or "business-as-usual." Examples include routine capital investments, annual maintenance, or safety-related replacements that occur every year. The cost relates to ongoing operating assets. Outside of certain extraordinary circumstances, operating utility assets should not be securitized. They belong in rate base and should be financed through the utility's traditional mix of debt and equity.
2. Costs are undefined, speculative, or extremely large. Uncertainty undermines the ability to secure AAA ratings. Investors may not support bonds backed by uncertain future surcharges.
3. Customer usage is expected to decline, or the customer base may shrink. Long-term, fixed securitization charges quickly become more burdensome when spread across fewer customers.
4. The use of securitization would cause the utility to deviate from its optimal capital structure and/or weaken its credit quality.
5. The utility needs ongoing financial flexibility to support necessary system safety, reliability, and infrastructure investment.

In short, securitization is inappropriate whenever it would:

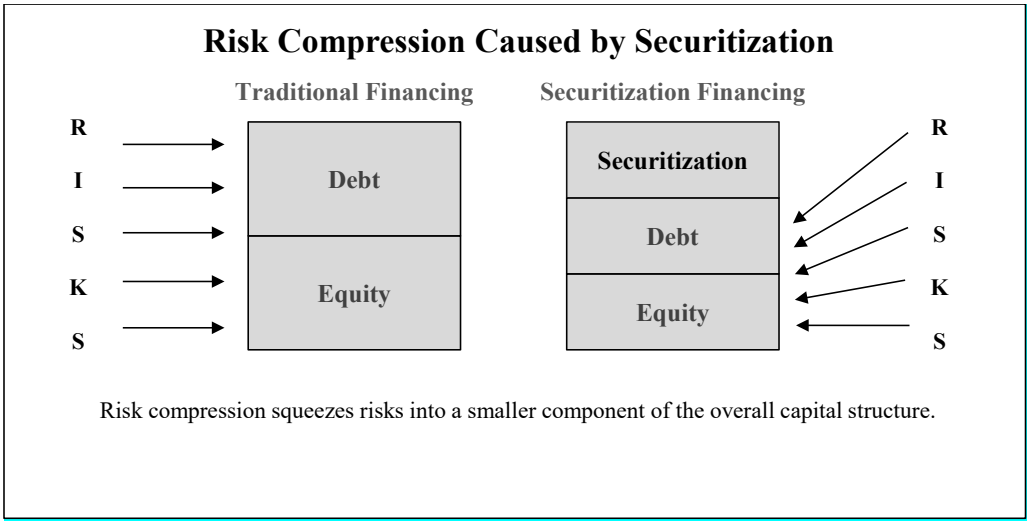
- Shift risks to future customers
- Impair credit metrics, or

[7] "Other" includes, for example, bankruptcy-related company reorganization and environmental compliance.

- Function as a substitute for normal utility financing of operating assets

Risk Compression

Securitizing costs does not reduce the aggregate risk of a utility enterprise. Securitization transfers risk away from securitized bondholders and compresses it onto the utility's remaining capital providers (traditional debt and equity investors). Securitized investors enjoy state-backed protections and true-up mechanisms. Remaining investors face higher risks, because they now hold claims to a smaller portion of the utility's revenue that is not protected by legislative guarantees. This phenomenon, referred to as "Risk Compression" raises the cost of traditional utility financing.



Risk compression squeezes risks into a smaller component of the overall capital structure.

Utilities maintain an optimal capital structure (balanced mix of debt and equity) to minimize their weighted average cost of capital. Securitization introduces additional debt-like obligations without adding equity, which can cause the utility to drift away from its optimal capital structure, become more leveraged, and weaken credit ratings. In this scenario investors will require higher returns on both debt and equity. These higher returns apply to the entire remaining rate base, not just the securitized portion. As a result, the long-term increase in financing costs can erase or even exceed the short-term savings securitization appears to provide. This is one of the most significant—and often overlooked—risks associated with excessive securitization. Accordingly, utilities should limit securitization to extraordinary, discrete events where transparent, side-by-side analysis shows lower lifetime customer costs and no degradation of credit metrics, financing flexibility, or bill affordability, recognizing that rating agencies anchor their views most in statutory permanence, financing-order protections, and the robustness of the true-up.

In certain instances, proceeds from securitization bonds are used to retire a utility's existing financial

obligations. Utilities must evaluate these debt-retirement actions in light of existing indenture constraints, including make-whole provisions, call-protection features, or yield-maintenance penalties that can be triggered when retiring traditional debt prior to maturity. These provisions are designed to compensate bondholders for the loss of expected future interest payments and can materially affect the economics of the refinancing if not anticipated in the financing order.

Intergenerational Equity Concerns

Securitization spreads costs over a fixed period with levelized recovery (i.e., a fixed payment amount that does not decline as the asset balance is amortized), which can lead to intergenerational equity concerns. In general, the benefit of smoothing near-term bill impacts must be carefully weighed against the medium- to long-term burden of higher bills for future customers.

For asset securitization in particular, any mismatch between the life span of the securitized assets and the repayment term of the securitized debt may lead to an unequitable cost allocation relative to the benefits received. If the underlying assets no longer benefit future customers, then future ratepayers effectively subsidize past investments, compromising the fairness of cost allocation.[8]

Similarly, when long-lived utility assets continue to provide service beyond the term of the securitization bond, cost recovery over a fixed period can create intergenerational inequities: future customers benefit from assets for which they will no longer pay either a return *on* or *of* capital, while current customers shoulder the entire burden. This mismatch between the asset's useful life and the securitization term is one key reason securitization has not traditionally been used to finance assets that remain integral to ongoing operations. The risk is further heightened in the context of customer migration. Remaining customers are left to absorb fixed securitization charges for assets that still function but are no longer paid for by the broader customer base. In such cases, securitization can exacerbate, rather than mitigate, inequities in cost allocation over time.

Securitization is intended to be a limited-use, extraordinary-event financing tool, not a routine substitute for traditional debt and equity capital. Overreliance on securitization poses significant long-term risks to both utilities and their customers. When used too frequently or for costs that are ongoing, operational, or uncertain, securitization can erode the utility's financial flexibility, weaken credit metrics, and compress risk onto remaining investors, raising the cost of traditional debt and equity and increasing customer rates. Just as importantly, excessive, or inappropriate securitization can eliminate the tool's future availability for true emergencies, such as catastrophic storms, extreme commodity price spikes, or major asset failures, when access to low-cost, state-enhanced financing could provide measurable customer benefits. Overuse also creates intergenerational fairness concerns, locking future customers into long-term surcharges for assets or programs that may no longer benefit them. In this way, the unchecked expansion of securitization not only undermines the financial stability of the utility but also diminishes securitization's value as a critical

[8] NARUC, Mitigating Stranded Asset Risks to Utility Customers: Securitization & Coal Retirement (Feb. 2024).

"insurance policy" meant to protect customers during unpredictable and extraordinary events.

Credit Rating Agency Perspectives

Credit rating agencies generally view utility securitizations favorably when the bonds are anchored by a robust legal and regulatory framework. The framework consists of an explicit statutory authorization that creates a present property right in a non-bypassable charge assessed on customer bills, an irrevocable financing order from the commission, and an uncapped, timely true-up that keeps collections aligned with debt service through the life of the bonds. Under these conditions, securitization can achieve high ratings (often AAA) because repayment risk is structurally isolated from the utility's corporate credit. Key points from review of the three major credit rating agencies include:

Moody's

Moody's views utility securitization, specifically Utility Cost Recovery Charge (UCRC) securitizations, as a legally grounded and generally strong credit structure, with overall credit quality tied primarily to the statutory creation of a property right allowing the utility or a special-purpose entity to levy dedicated, non-bypassable charges on customer bills.[9] The rating methodology emphasizes that the legislation authorizing a UCRC must clearly define the right to impose charges, specify the process for setting and collecting them, and permit the irrevocable transfer of these rights through a true sale to an special purpose vehicle, thereby insulating securitized cash flows from potential utility bankruptcy claims. Moody's also stresses the importance of non-impairment pledges and irrevocable financing orders, noting that these protections minimize political or regulatory interference and preserve the stability of collections throughout the life of the securitization. From an economic standpoint, the agency observes that UCRC charges typically remain around or below 10% of a residential bill, levels generally viewed as sustainable; however, higher charges increase the likelihood of legal or political pressure to rescind or modify financing orders, which presents heightened long-term credit risk. A broad, stable, and diverse customer base further supports credit quality, as does strict non-bypassability of charges, which ensures that all current and future customers contribute to the securitization revenue stream and reduces cash flow variability over time.

Central to Moody's framework is the true-up mechanism, which it identifies as the most important structural credit protection in UCRC securitizations. True-ups adjust charges periodically to correct for past under-collections or projected revenue shortfalls, thereby mitigating risks from declining usage, customer defaults, or forecast errors and reducing reliance on traditional credit enhancement such as subordination or reserve accounts.

[99] Moody's Investors Service. (2024, May 2). Rating Methodology: Utility Cost Recovery Charge Securitizations (Report No. 14002909).

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Moody's does not automatically treat all utility cost-recovery securitizations as on-credit debt for issuer-level metrics. For ratepayer-backed notes that meet the expected legal and structural criteria (including a bankruptcy-remote SPE, a true-sale of UCRC property, and a robust statutory true-up that insulates the pledged charges and notes from the utility's assets and revenues), Moody's typically presents utility financial metrics excluding securitization debt to acknowledge the credit benefits of this financing and preserve peer comparability.

Moody's has indicated that exceptions may apply when the utility ultimately bears the economic burden of repayment. For example, in PG&E's planned issuance (up to $7.5 billion) for 2017 wildfire costs, the proposed rate-neutral structure would establish a customer credit trust to provide bill credits offsetting securitization charges, such that the utility effectively pays principal and interest through the customer credit. In that circumstance, Moody's indicated it would treat the securitization bonds as on-credit within the utility's credit metrics.[10]

While UCRC securitizations often lower customer costs and provide immediate cash to the utility—benefits Moody's has characterized as credit positive—the agency also assesses regulatory affordability and headroom. If UCRC charges become a significant share of customer bills, Moody's may apply qualitative adjustments to its views on timeliness of cost recovery or the financial thresholds for upgrades/downgrades, even as it continues to present ratios with and without securitization for transparency.

However, Moody's also cautions that excessive reliance on securitization carries significant downsides, consistent with the risks noted in the methodology and confirmed in its sector reports. When utilities use securitization to recover stranded costs, they forgo the ability to include the underlying asset in rate base and therefore lose the opportunity to provide equity investors with a return on that asset, diminishing long-term earnings power and cashflow generation. A large accumulation of securitization debt can elevate customer bills materially, potentially deterring regulators from approving future rate increases out of concern for affordability. This, in turn, may constrain capital investment and reduce future additions to rate base. Because securitization charges persist for many years, new customers may also face surcharges associated with historical events, reducing the competitiveness of utility service territory rates and potentially discouraging new commercial or industrial development.

Moody's further notes that heavy reliance on securitization may affect the regulatory foundations that support its ratings criteria: frequent statutory changes to enable new securitizations, expansion of trackers or riders, or shifts in judicial behavior (especially toward aligning with political preferences for lower rates) may signal meaningful evolution in regulatory frameworks, potentially

[10] Moody's Investors Service. *Regulated Electric and Gas Utilities – US: FAQ on the Growing Use of Securitization Bonds by Investor-Owned Regulated Utilities.* Sector In-Depth, 4 November 2021.

weakening confidence in the timeliness and stability of cost recovery mechanisms over time.

S & P

S&P Global Ratings views utility securitization as a cost-effective financing tool that utilities use to recover large, unexpected, or statutorily defined costs—such as stranded assets, storm recovery expenses, wildfire mitigation costs, grid hardening, and extraordinary fuel expenses—through dedicated, irrevocable, non-bypassable charges on customer bills, typically mandated by state statute and supported by financing orders issued by utility regulators. S&P will often deconsolidate securitization debt from the utility's balance sheet when the securitization structure includes protective features such as irrevocable financing orders, non-impairment pledges, true-up mechanisms, and statutory guarantees of full cost recovery. Under these conditions, S&P removes securitization-related debt, revenue, and expenses from its credit metric calculations, viewing the obligations as legally and structurally insulated from the utility's own credit profile.[11]

While S&P identifies securitization as generally credit-positive for utilities and a highly secure asset class, when used appropriately, it also highlights several risk factors. As noted earlier, securitization charges that become too large a percentage of a customer's bill increase the likelihood of political or customer pushback, potentially threatening the stability of the enabling legislation or financing order. When evaluating transactions, S&P examines both the level of the charge as a percentage of the average residential bill and the duration for which the charge remains elevated, recognizing that excessive levels can erode political and regulatory support for continued securitization.

Second, S&P notes risks associated with population decline, industrial concentration, or increased customer self-generation (such as rooftop solar), which could erode the payer base. While the true-up mechanism mitigates these risks to some extent, it is not equivalent to an unlimited liquidity facility and may not recover all shortfalls in a one-year period, especially if major forecast errors or customer attrition occur. Additional risks include political ballot initiatives that may alter or weaken securitization statutes, and operational disruptions caused by natural disasters that could temporarily affect billing and collections. Nevertheless, S&P notes that strong statutory frameworks, liquidity reserves, multi-year true-up capabilities, and buffers between scheduled and legal final maturities help mitigate these risks and support the continuing performance of the asset class.

Fitch

Publicly available reports from Fitch continue to indicate that the agency's ratings analysis for utility securitization focuses primarily on the credit quality of the securitized bonds themselves, rather than on the corporate credit profile of the sponsoring utility.[12] Recent Fitch presale and rating

[11] S&P Global Ratings. (2024, March 4). Credit FAQ: The Rationale Behind U.S. Utility Securitization and Reasons for Recent Growth.
[12] Fitch Ratings, Fitch Assigns Final Ratings to Utility Debt Securitization Authority Restructuring Bonds Series

commentaries emphasize that the securitization credit strength derives from statutory features such as non-bypassable restructuring charges, bankruptcy-remote issuers, and formulaic true-up mechanisms that ensure sufficient collections even in the face of declining sales or changes in customer usage patterns.

Summary of Rating Agency Perspectives

Taken together, sector analyses reflect a consistent framework for evaluating securitization. Securitized debt can achieve comparatively high credit ratings because securitization provides a highly stable and credit-positive recovery mechanism when tariff burdens remain modest, customer participation remains broad, and true-up adjustments do not materially affect economic behavior. Securitization can be beneficial when deployed sparingly to address extraordinary, discrete, and non-recurring costs, rather than as a tool for the ongoing recovery of routine utility rate-base investment or operational expenditures. When used as intended, the structure's legal insulation, true-up protections, and broad cost-allocation base support strong credit performance and predictable amortization.

However, sector commentary makes clear that risks increase as aggregate securitization exposure grows. When the surcharge becomes a larger share of the customer bill (particularly in the context of declining throughput, rising affordability pressures, or customer migration) the true-up must compensate by raising charges on a shrinking base. In these conditions, the durability of the mechanism may be tested, both economically and politically, which in turn may affect investor appetite. Rating agencies have also emphasized that, while securitization itself may carry strong structural protections, an expanding layer of fixed charges can heighten general cost-recovery risk for a utility by tightening affordability constraints within which regulators must operate. Because non-securitized lenders and equity investors lack the statutory protections embedded in securitization, they are the parties most exposed if commissions respond to affordability pressure through rate-mitigation measures that constrain recovery of other costs.

There is no universal cap, but analysts monitor the percentage of bills, cumulative dollars across outstanding transactions, customer concentration, and the breadth of statutory protections. The practical takeaway is that rating strength ultimately rests on the quality of the enabling framework and the demonstrated performance of the true-up mechanism. Risk increases as the size of the surcharge grows relative to the overall size of customer bills or is layered repeatedly across years. This is especially true when usage and customer counts are expected to fall, conditions that make sustaining historically "AAA-like" structured-finance outcomes more challenging.

2025 (Dec. 15, 2025).

Conclusion

Securitization is a potentially beneficial special-purpose financing tool that can deliver customer savings, but only when the underlying costs are discrete, well-defined, and supported by a durable legal framework. By design, it requires enabling legislation that authorizes a non-bypassable surcharge and a commission financing order with a robust true-up. Without those elements, the structure cannot attain the high credit quality, and corresponding interest-rate advantages, on which its economics depend. When those protections are in place and the securitized costs are appropriately limited in scope, securitization can smooth out rate shocks and lower near-term costs. But those same structural features also make securitization ill-suited for large, undefined costs with uncertain timing, particularly when the stability of the customer base is uncertain. Under these circumstances investor appetites wane as the surcharge must rise on a shrinking customer base and achieving AAA-equivalent ratings becomes unlikely. Bond ratings and pricing are highly sensitive to the surcharge as a share of the total bill and to the risk of customer migration off the utility system, both of which introduce uncertainty that is difficult to reconcile with the "nearly risk-free" cash-flow profile required for top-tier bond ratings. Smaller utilities face an additional hurdle: transactions must be large enough to justify fixed issuance costs and attract deep, competitive demand, which may not always be feasible.

Equally important, broad securitization of operating utility assets is inappropriate and counterproductive. Securitization does not eliminate operating or business risk; it reallocates that risk away from investors in the securitization bonds and onto the utility's remaining debt and equity holders. Because securitized bondholders are paid first from a legally protected, dynamically trued-up surcharge, all non-securitized investors are left supporting the residual (and now riskier) cash flows. The result is risk compression: higher risk for existing debt and equity investors, a higher required return on new utility debt and equity, and a higher long-run cost of capital applied to the much larger, non-securitized portion of rate base.[13] Over time, this "hidden cost" can erase or exceed the savings produced by low interest securitization bonds. In addition, replacing existing financing of utility plant could effectively force a wholesale refinancing of outstanding obligations, triggering make-whole/breakage costs that would immediately add to ratepayer burdens without creating new customer value.

Overreliance on securitization also erodes financial flexibility when utilities must continue to invest in safety, reliability, and compliance. As irrevocable, long-dated surcharges accumulate, they consume bill headroom, complicating future affordability and intergenerational equity as costs are spread across fewer customers who may receive less benefit. The approach can further undermine the utility's investment attractiveness, weaken credit metrics, and elevate financing costs across the platform. For these reasons, securitization should remain what it was intended to be: a targeted,

[13] In that case, when equity investors bear the risk of operating assets that had been securitized but receive no compensation for that risk, they will allocate their capital elsewhere.

infrequent tool for extraordinary, past, and non-recurring costs (e.g., storm restoration, wildfire recovery, or early retirement of specific assets). Securitization is needed as an “insurance policy” ensuring access to low-cost, long-term funding in these critical situations, not a substitute for the traditional mix of debt and equity that prudently finances operating assets.