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MEMORANDUM

Date: July 23, 2026

To: Eversource Energy

Subject: Questions Regarding Storm Cost Securitizations

At your request, we have prepared the summary below of how utility storm cost securitizations work and how they differ structurally from municipal bond offerings.

I. STORM COST SECURITIZATIONS: OVERVIEW

A storm cost securitization allows a utility to recover large storm repair costs over a period of years at the lowest possible interest rate by selling a legislatively-created right to collect a dedicated customer charge to a special-purpose entity that issues AAA-rated bonds.[1, 9] Utility customers pay less because the bonds carry the lowest available rate and storm repair costs are recovered from utility ratepayers over an extended period.[3]

Every utility securitization requires three structural components.[1] *First*, enabling state legislation that creates a new intangible property right—the legal entitlement to impose and collect a nonbypassable charge (the "rate reduction bond charge") from all retail customers, including a state pledge not to impair that right.[1, 2] *Second*, a binding, irrevocable, and non-appealable financing order from the public utility commission establishing the charge and authorizing the issuance of bonds that will be repaid through the charge.[1, 4] *Third*, an automatic true-up mechanism that periodically adjusts the charge (subject to the review of the public utility commission) to ensure full and timely debt service payments regardless of usage changes or economic conditions.[1, 3]

A storm cost securitization is structured through a bankruptcy-remote special purpose entity (an "SPE") that acquires the right to impose and collection the rate reduction bond charge from the related utility through a true sale and then issues bonds secured by a first-priority lien on that right.[2, 5] The SPE is prohibited under its organizational documents from engaging in any other business or issuing additional debt, and the parties to the bond offering agree not to petition to subject it to a bankruptcy proceeding.[5] The utility acts as servicer with respect to the charge, billing customers, collecting payments, and remitting collections to the bond trustee.[2] The combination of the state non-impairment pledge, the irrevocable financing order, the true-up, the true sale, and the first-priority lien creates a credit profile for the SPE's bonds rated AAA, structurally de-linked from the utility's own creditworthiness.[1, 10]

II. KEY DIFFERENCES BETWEEN A MUNICIPAL BOND OFFERING AND A UTILITY STORM COST SECURITIZATION

A municipal bond is issued by a government entity and backed by its taxing power or system revenues; the entity retains all assets.[6] As outlined above, a utility securitization bond is issued by an SPE that owns only a single intangible right to collect a dedicated charge and grants a lien over that right in favor of the bondholders. Because the SPE has no other creditors, no other business, and no other obligations, its bondholders have an exclusive, uncontested claim on the property right that constitutes the source of repayment for the bonds. By contrast, municipal bondholders may need to share the issuer's resources with other competing creditors.[3, 5]

The differences between municipal bonds and utility securitizations are several. The issuer of a municipal bond is a governmental entity with sovereign powers and, for general obligation (GO) bonds, taxing authority; whereas, a securitization bond is issued by a newly formed, bankruptcy-remote SPE with no governmental powers, no employees, and no purpose beyond the securitization.[4, 5, 6, 11] Municipal revenue bonds are secured by a lien on the net revenues of a specific operating system; utility securitization bonds are secured by a first-priority lien on a specific intangible property right transferred to the SPE through a true sale.[2, 3, 7]Most importantly, in a municipal bond, the issuer typically has other obligations and liabilities, such as operating expenses, pension obligations, and capital needs, and bondholders' claims may compete with these demands, necessitating rate covenants and additional bonds tests.[7] In a securitization, the SPE has no other creditors and no operating expenses beyond minimal administrative costs, so the entire rate reduction charge may be applied to debt service on the bonds.[3, 5]This absence of competing claims is the primary basis for the AAA rating.[1]

III. WHY UTILITY OPERATING ASSETS ARE TYPICALLY NOT SECURITIZED

A municipality can issue bonds secured by revenues from its physical infrastructure because it is simultaneously the issuer, owner, operator, and rate-setter; no separation is required.[7, 8] Typically, however, an investor-owned utility cannot transfer physical assets to a securitization SPE because those assets require continuous capital investment that a passive, limited-purpose entity cannot fund. Instead, the solution is to securitize an intangible cash flow right that requires no maintenance or reinvestment.[2, 5]

The primary barrier to the securitization of utility operating assets is the capital maintenance problem. Physical utility infrastructure requires continuous capital investment to maintain operational capability and regulatory compliance; Moody's has specifically identified asset deterioration as a critical credit risk for utility systems.[7] A securitization SPE cannot fund such capital: it cannot raise equity, issue additional debt, borrow, retain earnings, or contract for maintenance work.[5] Physical assets placed in an SPE would inevitably deteriorate. Moreover, transferring assets to an SPE that are required for a utility to operate would prevent the utility from providing service using assets it controls.

The transfer to an SPE of the intangible property to the rate reduction bond charge right works in relation to large deferred expenses that a utility may have, such as storm costs or the costs of "stranded" assets, no longer used and useful for utility ratepayers because these types of "assets" do not depreciate, require no maintenance or capital and can be cleanly transferred through a true sale, thereby allowing the SPE to remain purely passive—all while the utility retains and continues to operate its physical system.[2, 10]

Municipalities do not face these constraints because the municipal revenue bond structure does not require asset separation.[8] When a municipality issues revenue bonds, it remains the owner, operator, maintainer, and rate-setter at all times; bondholders receive a lien on *net system revenues* and the assets never leave the municipality's possession.[7, 8]There is no true sale, no SPE, and no structural isolation because the issuer and operator are the same integrated governmental enterprise.[8, 11]

ENDNOTES

[1] Moody's Investors Service, "Utility Cost Recovery Through Securitization Is Credit Positive" (July 18, 2018), available at https://www.xcelenergy.com/staticfiles/xe-responsive/Company/Rates%20&%20Regulations/Resource%20Plans/Clean%20Energy%20Plan/HE_110-SAW-1-Moodys_Cost_Recovery_Through_Securitization_7_18_2018.pdf.

[2] Saber Partners LLC, "Lowering Environmental and Capital Costs with Ratepayer-Backed Bonds", available at https://saberpartners.com/op-ed/lowering-environmental-and-capital-costs-with-ratepayer-backed-bonds/.

[3] Saber Partners LLC / Joseph S. Fichera, "Investor-Owned Securitization: Debt for Equity," Presentation to NARUC Electricity Committee (updated November 2019), available at https://saberpartners.com/wp-content/uploads/2019/11/Fichera-NARUC-Electricity-Comm-5-17-19-for-UPDATED-11-1-19.pdf.

[4] CenterPoint Energy Investor Relations, "CenterPoint Energy Restoration Bond Company II, LLC", available at https://investors.centerpointenergy.com/centerpoint-restoration.

[5] World Bank, "Securitization—Key Legal and Regulatory Issues", available at https://documents1.worldbank.org/curated/en/747401468092077080/pdf/395540Securitization.pdf.

[6] State Street Global Advisors, "Corporate vs. Municipal Bonds: Key Differences", available at https://www.ssga.com/us/en/intermediary/resources/education/corporate-vs-municipal-bonds-key-differences.

[7] Moody's Ratings, "Rating Methodology: US Municipal Utility Revenue Debt" (March 7, 2024), available at https://www.ehlers-inc.com/wp-content/uploads/2025/12/Rating_Methodology-Rating-Methodology-US-07Mar2024-PBM_1396729.pdf.

[8] Metropolitan Area Planning Council (MAPC), "Municipal Light Plants in Massachusetts" (July 2016), available at http://www.mapc.org/wp-content/uploads/2017/10/MAPC_MLPWhitePaper_Jul2016-1.pdf.

[9] RMI Electricity Affordability Toolkit, "Securitization", available at https://affordability-toolkit.rmi.org/policies/securitization.

[10] PG&E Wildfire Rate Recovery Securitization Filing (June 2024), available at https://docs.cpuc.ca.gov/PublishedDocs/SupDoc/A2406013/7582/534819191.pdf.

[11] American Public Power Association, "Municipal Bonds and Public Power", available at https://www.publicpower.org/policy/municipal-bonds-and-public-power.