



Check the Deluge of Utilities Rate Increase Requests

The rapid rise in utility company requests for rate increases, and the attendant higher customer bills, warrant the attention of rate reduction bonds (RRB) investors. Utilities asked for \$29 billion rate increases in 1H 2025. This is more than double their requests in 1H 2024, according to PowerLines. Public utility commissions (PUC) determine if they approve the full utility request, or part of it.

The requests come from dozens of utilities and span a broad range of requested increases. Examples include Pacific Gas and Electric (PG&E) \$3.1 billion request and New Mexico PNM's \$105.0 million request (Figure 1). The requested rate hike percentages also vary, with AES Indiana, for example, requesting a total of 13.5% increase, while AEP Ohio asking 2.14%. Many of the requesting companies, including PG&E and PNM, also tap the RRB market. Interestingly, the key driver of recent utility bill increases has been rising transmission and distribution costs, rather than generation costs.¹ As utilities turn to focus on investing in power plants and other facilities that generate electricity, we expect even more rate increase requests [down the road](#).²

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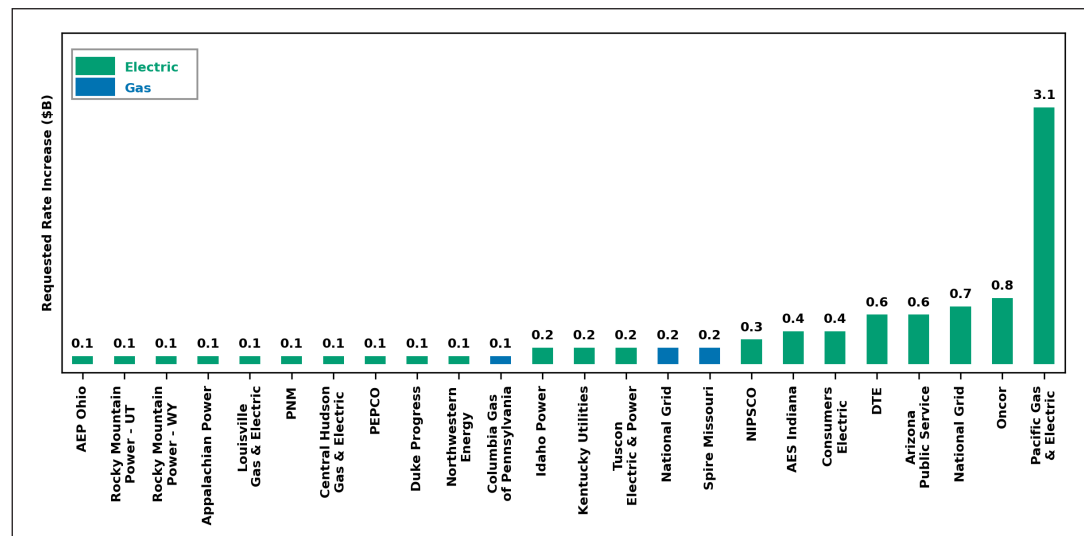
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Figure 1. Recent Utilities Rate Increase Requests



Source: PowerLines and Academy Securities

1 Three main expenses contribute to utility bills: (1) Generation, (2) Transmission, and (3) Distribution, based on PowerLines data

2 "Power Costs: Data Centers and Recovery Bonds Poised for More Predictability," Securitized Products Special Topics, Academy Securities, March 10, 2025

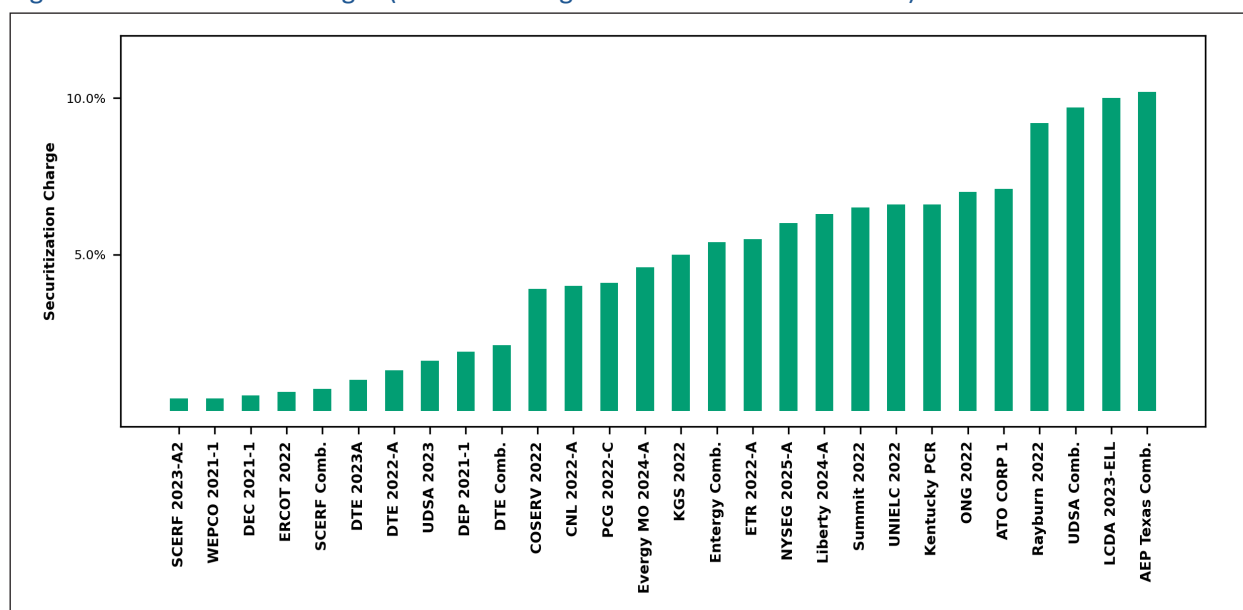
Utility Rates: Rising Bills Can Bolster RRB Deals

Larger Bills Reduce Recovery Charge Percentage...

Rising power base rates can have a nuanced impact on RRB deals. The RRB collateral is not the varying customer base rates. Rather, it is special charges that the utility companies impose on customers' monthly [bills](#).³ As such, rate changes are not directly impacting RRB cashflows. But as rising rates lead to bigger customer bills, the RRB special charges, aka recovery fees, comprise a smaller percentage of the overall bills. Ironically, this is credit positive for RRB deals, all else equal.

Rating agencies regularly flag relatively high recovery charges as a credit challenge. For example, the initial recovery charge in the \$477.7 million Kentucky Power Cost Recovery 2025 deal, that priced last month, comprised ~6.6% of the total bill on 1,000 kWh residential customer, based on rates as of April 2025. This charge is higher than the average charge of around 5% on RRB deals (Figure 2). One concern with excessive recovery fees is that they can prompt political pressure to reverse the imposition of the fees. As recovery charges comprise a smaller proportion of base rate-driven higher bills, any political focus on the charges may subside.

Figure 2. Securitization Charges (% of an Average Residential Customer's Bill)



Source: Deal Documents, Ratings Agencies, and Academy Securities

...But May Prompt Political Scrutiny and Push Delinquencies Up

Despite the credit positive of smaller recovery charges, higher total bills can still invite closer political scrutiny of the overall utility bill impact on consumers. Robust securitization laws and financing orders are critical components of the strength of RRB deals. Rising rates underscore the focus on state “non-impairment” pledges. Investors should ensure states and their PUCs pledge that they will not take or permit any action that would impair the value of the recovery charges that back RRB deals.

³ “Recovery Bonds: No Need to Closely Watch the Fed or the Economy Here,” Securitized Products Special Topics, Academy Securities, November 30, 2022

Utility Rates: Rising Bills Can Bolster RRB Deals

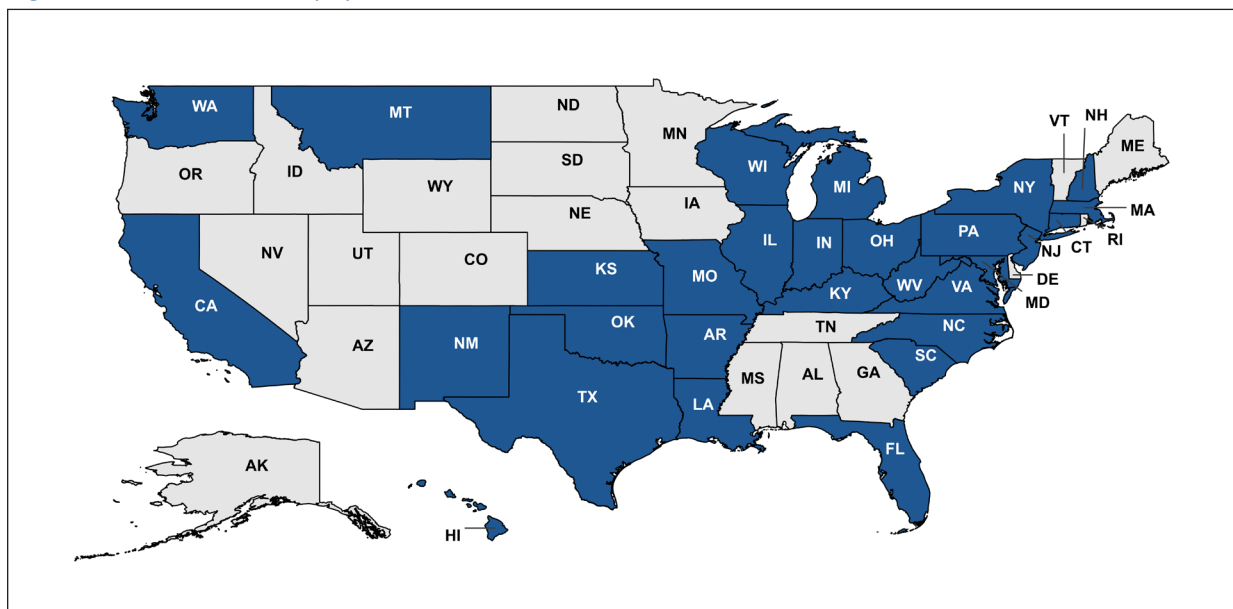
Onerous utility bills can potentially also elevate delinquencies, especially in weaker geographical areas. This could happen even amid limited concern over customers motivation to make timely payments on their utility bills, compared to other consumer obligations. Offsetting the delinquency risk, RRB's unique true-up adjustments provide what can be viewed as unlimited credit enhancement to outstanding bonds. The true-up mechanism essentially ensures the bonds full payment, as we discussed in a previous [report](#).⁴

Prohibitive Base Rates Underscore Ratepayer Securitization Appeal

We expect the deluge of rate increase requests to be another trend reinforcing the growing interest across states and PUCs in ratepayer securitization. This dovetails with utilities need to bolster capacity, especially amid the rapid rise in data center power demand, as we discussed in a recent [report](#).⁵

PUCs oversee both the approval of base rate increases and the imposition of recovery charges via financing orders. To be sure, only about 60% of a utility's requested rate increase is typically approved, on average, based on recent data PowerLines cites. But if base rates become prohibitive following successive rate increases, PUCs can be increasingly receptive to ratepayer securitization via recovery charges. The latest example is Arizona. The state is working through House Bill 2679, which will allow utilities to use securitization. If passed, Arizona will join 33 other states that have some form of ratepayer securitization legislation in place (Figure 3).

Figure 3. States With Ratepayer Bonds Issuance



Source: Bloomberg and Academy Securities

⁴ "Recovery Bonds: Deal Reporting Shows the Potency of True-Up Adjustments," Securitized Products Special Topics, Academy Securities, March 18, 2024

⁵ "Energy Transition: Expect Broader Definitions in Securitization Laws," Securitized Products Special Topics, Academy Securities, May 22, 2025

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