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Utility Bills Rise as Americans Pay Off Storm-Recovery Costs for Decades to Come

Storm Costs Hit Utility Customers

BY JENNIFER HILLER

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Some of the heftiest fees to cover costs of recent storms are in Louisiana, where Hurricane Zeta tore through Grand Isle two years ago.
PHOTO: MATTHEW HINTON/ASSOCIATED PRESS

After powerful storms wreaked havoc on America's utility system in recent years, bills to cover recovery costs are coming due for customers.

Electric and gas utilities are increasingly turning to lower-interest, ratepayer-backed bonds to finance mounting investments to fix and bolster their systems or cover extraordinary energy costs following hurricanes, wildfires and winter freezes. Customers are on the hook for repaying the loans, and the payback period could stretch for as long as 30 years.

In the past year, around $12.4 billion of weather-related utilities debt that customers will have to pay has been issued in the U.S., according to advisory firm Saber Partners LLC, up from around $7 billion in long-term recovery bonds that states and utilities issued from 2007 to 2021. More is expected to come, much of it stemming from winter storm Uri, which in February 2021 knocked out power to millions for days and led to increases in prices of electricity and natural gas across several states.

Issuers of low-interest-rate bonds get money up front from investors and repay the loan over time using the proceeds from customers' monthly bills. Such securitizations result in lower monthly costs for customers than traditional financing mechanisms. Utilities issue the bonds, which are usually rated triple- A, with the cash coming from a line-item fee on customers' utility bills. Additional costs tacked on from securitizations can range from around 1% to nearly 13% of average customer bills, among bonds rated by Moody's Investors Service.

A risk is that the special charges accumulate, analysts and companies say. "Different customer groups are going to be paying over time. It may be different generations," said Joseph Fichera, Saber Partners chief executive.

More than a million ratepayers in Entergy Corp.'s Louisiana service area owe $3.2 billion for repairs following hurricanes Laura, Delta and Zeta in 2020, a portion of the damage from Hurricane Ida in 2021, and costs from Uri. The utility said it would ask regulators to approve bonds to cover another roughly $1.6 billion in Ida-related costs.
Monthly storm charges for customers would range from around $15 to $45 depending on power use, fees that will be tacked onto bills for the next 15 years, said Foster Campbell, one of five elected Louisiana utility commissioners. He voted against the storm charges, saying that people in northern Louisiana shouldn't have to bear the same sort of storm recovery costs as coastal residents.

Entergy Louisiana customers finished paying for damages from hurricanes in 2008 and 2012 in August. Phillip May, chief executive of Entergy Louisiana, said securitizing the debt results in the lowest costs for customers, although interest rates rose from around 3% earlier this year to around 4.3% in May, the company's most recent securitization. "It really is about finding the fairest way to cover the costs associated with putting the system back together," Mr. May said. More-recent transactions are priced at greater than 5%, according to Moody's.

The use of securitization started in the 1990s during a wave of utility-industry deregulation, when many states broke up utility monopolies and introduced competition among a larger universe of power generators and retail electricity providers. Utilities were able to securitize the cost of stranded assets. Long-term bonds were later used for storm recovery.

The securitizations are happening now as many utility customers already struggle to keep up with monthly payments. Around one-third of households have forgone necessities such as food and medicine to cover energy bills for a month or more in the past year, according to a recent Census Bureau survey. Utility costs to purchase or produce power have been rising. For Uri alone, ratepayer-backed bonds to cover the expense of electricity and natural- gas prices could reach $13 billion, said Natividad

Martel, vice president and senior analyst at Moody's Investors Service. That total includes a pending $3.4 billion bond to securitize the cost of high natural-gas prices in Texas during the winter storm and a recent $336 million bond to cover winter-storm-related natural-gas costs in Kansas.

Securitization is cheaper than an electric or gas utility's typical borrowing, which would be based on its own capital mix and result in higher costs that ratepayers would have to pay back. Because of that, these bonds can be a good way to deal with expensive events and avoid bill shock, but the pass-through financings require scrutiny, said Martin J. Luby, associate professor of public affairs at the University of Texas at Austin and a financial adviser to state and local governments.

"The utility is not bearing the cost. It's just passing it on to the ratepayer," Mr. Luby said. "It's critical that ratepayer advocates are watching these transactions. These are long-term fixed costs."

Louisianans are paying some of the nation's heftiest costs to cover damage from five recent storms, with natural-gas prices, an expense that also gets passed to customers.
Despite the increase in the long-term bonds, they aren't common. Utility customers usually pay recovery costs over short periods, often two to five years. Florida Power & Light Co. said in October it plans to recover $1.1 billion from customers to pay for damages incurred during Hurricane Ian. The storm made landfall Sept. 28 as a Category 4 hurricane, devastating parts of southwest Florida. Cost recovery would take an estimated 21 months starting in April.

FP& L, a unit of NextEra Energy Inc., can collect $4 for every 1,000 kilowatt-hours of monthly use from all of its residential customers under its existing agreements with state regulators, though it said it may ask for an increase. Its customers in the northwest part of the state already are paying $11 for every 1,000 kilowatt-hours, for system damages from two other hurricanes, Michael in 2018 and Sally in 2020, through the end of 2024