

NASUCA joins NARUC, Colorado Governor and California, Colorado and Illinois PUC's in Letter to the Securities and Exchange Commission on the Classification of Utility Recovery Bonds (URBs)

Background and Context of Attached Correspondence

On March 23, 2024, NASUCA joined Colorado Governor Jared Polis, the chairs of the California and Colorado Public Utilities Commissions, the Executive Director of the Illinois Commission, and the Chair of NARUC's "Committee on the Consumer and the Public Interest" in a letter to the Securities and Exchange Commission (SEC). The letter highlights the harmful impact on consumers from the SEC and Bloomberg's misclassification of Utility Recovery Bonds (URBs)—also known as utility securitization bonds—as "asset-backed securities" (ABS) rather than as corporate utility bonds. The group urged the SEC to adopt a specific "Path Forward and Next Steps" to protect electricity ratepayers wherever utility securitization is used.

This March 23 letter follows a broader effort that began with a September 10, 2024 letter to the SEC Chair from eight governors: Jared Polis (CO), Gavin Newsom (CA), JB Pritzker (IL), Maura Healey (MA), Gretchen Whitmer (MI), Michelle Lujan Grisham (NM), Kathy Hochul (NY), and Roy Cooper (NC). That letter expressed concern over Bloomberg's original 2022 misclassification of URBs, which was later reinforced by SEC Staff in a Compliance and Disclosure Interpretation (C&DI) issued in July 2024. While not a formal SEC rule, the C&DI functions as binding guidance, effectively forcing URB issuers to comply.

In November, 2024 NASUCA adopted [Resolution 2024-01, Resolution Urging Clarification of Utility Recovery Bond Classification by the SEC](#),

Attached Materials

March 14, 2025 News Article, "Buy-Siders Finding Yield in Utilities," in an financial industry publication called AssetBacked Alert reports that

- a) URBs have delivered "outsized returns" and "fat yields" to investors. This means Wall Street knows that the bonds are not fairly priced and it results in higher expenses for utility customers.
- b) URBs are usually all AAA rated – the top credit rating which should get the lowest rates – but the bonds are being priced like a sub-prime pool of auto loans that can only achieve a mediocre single "A" rating. The article cites J.P. Morgan's – a big underwriter of the bonds - own data. This means electricity customers are getting no financial benefit from the AAA rating.

March 23, 2024 Letter – Sent to SEC Division of Corporation Finance Director Ted Yu and Kayla Roberts, Acting Head of the Office of Structured Finance.

Asset-Backed Alert

A Green Street News Title

March 14, 2025

Buy-Siders Finding Yield in Utilities

Utility-fee bonds are producing outsize yields for the investors willing to buy them.

Bargain hunters in the sector have been gravitating especially toward paper with terms of 15 or 20 years, seeking fatter returns further out on the yield curve while still locking in triple-A-rated exposures.

Take the Class-A2 piece of a \$305 million [securitization](#) that **Cleco Power** priced on March 5 with **JPMorgan Chase** and **Sumitomo Mitsui Banking Corp.** as bookrunners. A single investor placed an order for the entire 15-year tranche, with another buy-sider requesting a \$100 million allocation. “If somebody puts in that much in an order, that’s a sign that it’s cheap,” one source said.

The bidding indeed suggests investors are noticing the yields available on such offerings. What has some market participants puzzled, however, is why spreads in the asset class haven’t fully benefited from the same tightening trend seen in other areas of the asset-backed bond market.

Consider that Cleco’s Class-A2 notes priced at 80 bp over Treasuries to yield 5.3%. That compares with a 4.6% yield for a comparable tranche of the Pineville, La., company’s previous issue, a \$425 million [offering](#) that priced in 2022 with **Credit Agricole** and JPMorgan as bookrunners.

To be sure, prevailing bond yields are higher than they were three years ago — when the **Federal Reserve** had just begun to raise interest rates in a bid to calm inflation. Still, market participants see a disconnect. The pricing for the most recent Cleco deal was comparable to that of a new offering of subprime auto-loan bonds with three-year lives and single-A ratings, for example.

It also was wide of the 68 bp over Treasuries where 10-year credit card securities with triple-A marks would have priced during the week ended March 6, according to JPMorgan. That premium, seemingly a result of the Cleco notes’ longer term, struck one source as excessive given the strength of the underlying collateral.

“You have this dynamic asset that adjusts a charge on everybody’s electric bill to whatever level is necessary to pay the bonds,” the source said. “So how much credit risk really is there?”

Liquidity, however, remains a hindrance for demand — in part because of variations in local policies that govern the fees backing the deals. “They’re just kind of a niche thing that people tend to have more questions on than answers,” another source said. “They’re very straightforward in terms of credit but confusing when it comes to the issuer and the utility and the region.”

Another market participant pointed out that the buy-side base for such securities is extremely concentrated, consisting mostly of insurance companies and asset managers. The resulting lack of competition for the notes, he said, could help explain why their spreads have been slower to move in.

For the latest Cleco deal, for example, there were only 13 unique investors.

That could change if the **SEC** [clarifies](#) that utility-fee bonds are not asset-backed securities but corporate bonds. Governors of eight states have been talking to the SEC about the potential move, which would open the offerings to a wider buy-side audience and, as such, would reduce issuing costs. ❖