

October 20, 2023

## DTE Utility Deal Braves High Costs

**DTE Energy** priced a new utility-fee securitization at some of the widest yields ever in the asset class.

The deal, weighing in at \$601.6 million, had been making the rounds with investors for a couple of weeks via sole book-runner **Citigroup** before pricing on Oct. 18. Bonds from the offering with 11.4-year lives and triple-A ratings priced to yield 6% (see Initial Pricings on Page 16). That marked significant widening since the sector's most recent [offering](#), from **CenterPoint Energy**. Securities from that deal with 15.8-year lives and the same ratings priced on June 21 to yield 5.2%.

The widest yield at which any previous utility-fee securitization tranche has priced was 5.5%, according to **Asset-Backed Alert's** ABS Database.

DTE last securitized utility fees in March 2022. This time around, however, the Detroit-based company faced steeper financing costs as yields on such bonds have ballooned over the last year or so in tandem with rising interest rates. In the previous deal, also run by Citi, 9.6-year [bonds](#) with the same ratings priced to yield 3.1%, while 2.7-year securities priced to yield 2.6%.

Yields have widened in large part because utility-fee bonds are benchmarked to 10-year Treasury notes. Since the CenterPoint transaction priced, yields on 10-year Treasuries have risen as high as 4.8% from around 3.7%. They were yielding 2% at the time of DTE's previous securitization.

To be sure, utility-fee deal yields have increased along with the rest of the market. But those high issuance costs don't reflect the true quality of the deals, according to **Joseph Fichera**, president of energy consultant **Saber Partners**, which advises state commissions around the world on the use of securitization to cover costs related to power-company management.

Utility-fee securitizations are immune from payment interruptions because their underlying collateral consists of unavoidable payments tacked on to consumers' monthly utility bills. That contrasts sharply with bonds underpinned by other forms of debt that consumers can elect not to pay, such as credit card receivables and auto loans.

Partly as a result, no triple-A-rated utility-fee deal has been downgraded or put on watch for a downgrade even when the parent utility entered bankruptcy during the global financial crisis, Fichera said. "Compared to any market alternative, DTE's spreads are not fair value, not justified given their safety and security," Fichera said.

Still, high funding costs appear to be keeping a lid on issuance in the sector this year following a record 2022. Including DTE's deal, six utility-fee [securitizations](#) totaling \$6.8 billion have priced so far this year, coming off a full-year record of 20 [transactions](#) adding up to \$21.3 billion in 2022, according to **Asset-Backed Alert's** ABS Database.