Bond Case Briefs

Municipal Finance Law Since 1971

S&P: U.S. Public Power Rates Can Withstand Inflation, Rising Commodity Prices, And Higher Borrowing Costs--For Now

Key Takeaways

- Persistent high inflation and reduced affordability can create resistance to retail utility rate increases that are necessary to recover higher electricity production, capital, and borrowing costs, potentially eroding debt service coverage and liquidity.
- Where available, automatic or formulaic pass-through mechanisms can position utilities for stable financial performance in the face of service interruptions, price shocks, or other unforeseen events.
- Utilities that maintain strong liquidity, including rate stabilization funds (RSFs), can use these reserves to partially offset spikes in energy costs, unforeseen service interruptions, exogenous shock events, or severe weather events.
- For many utilities and their customers, hedging arrangements and robust liquidity are forestalling financial pressures associated with inflation.
- Continued federal support for low-income households and clean energy initiatives can help underscore electric utilities' revenue certainty and reduce their capital costs that together can mitigate the financial vulnerability electric utilities and their customers face from inflationary pressures and energy transition capital costs.

Continue reading.

7 Sep, 2022