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## Fitch: California Solar Rule Neutral for Resi, Power Issuers.

Fitch Ratings-New York-22 May 2018: California's potential building requirement for many types of new residential construction to include solar panels will have a limited credit effect on public power issuers, homebuilders and the housing markets in the state, Fitch Ratings says. If the requirement is implemented, it will be an incremental component of a broader regulatory trend for which Fitch-rated issuers have prepared. California building code already requires all new residential construction to be zero net energy (ZNE) by 2020 and all commercial buildings to be ZNE by 2030. The lack of new construction in California will lower the impact on house prices.

We do not expect the building requirement to have a material effect on public power issuer ratings. The requirements are consistent with the ongoing trend toward greater energy efficiency and reduced per capita electricity consumption in the state. Public power utilities have been planning for, and adapting their long-term supply strategies to, responding to this trend.

Furthermore, many Fitch-rated public power issuers are in built-out communities with modest levels of new home growth. Those in higher growth areas, such as Roseville, already factored the much greater energy efficiency of new homes into their load forecasts.

We do not expect the mandate to install solar panels to meaningfully affect prices of existing homes in the state. Sales of new homes account for a smaller portion of homes sold in California. The incremental cost of installing solar panels is relatively marginal to the buyers of homes in the state, where home prices are already high to begin with. However, higher interest rates and increasing home prices in recent years, combined with the additional cost of installing solar panels, will likely continue to erode affordability for new homes in the state, particularly for entry level/first-time homebuyers. Nevertheless, the total cost of homeownership is likely to go down with lower monthly energy costs. California is one of the largest states, in terms of new home construction, with new home permits in the state accounting for about 9% of the U.S. total in 2017.

Homebuilders in the state have already begun marketing roof top solar features and changed practices to comply with ZNE codes, although adoption has been relatively limited, as most homebuyers have not been willing to pay for the added cost. The requirement to install solar panels could exacerbate the already tight construction labor market. Thus, the large public homebuilders rated by Fitch are well-positioned for the change, as these builders generally have better access to labor and materials due to scale. We expect homebuilders not marketing solar features to have ample time to do so, as the rule would not go into effect for two years. There is a small risk solar panel installations rise quickly, creating supply pressures that raise prices and slow down construction. This risk would be higher if states such as Nevada, Texas and Florida adopt similar building standards.

On May 9 the California Energy Commission voted to adopt the building standards beginning in 2020. The standards still need approval from the California Building Standards Commission. In addition to solar panels, the standard includes requiring residential and commercial buildings to have updated attic insulation and commercial buildings to conform to more energy efficient lighting standards. The standards would apply to apartment buildings of 1-, 2- and 3-stories and single-family

homes.

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Additional information is available on www.fitchratings.com. The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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