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Fitch Rtgs: Coal Power Pressured Despite Affordable Clean Energy Rule

Fitch Ratings-New York-25 June 2019: The US Environmental Protection Agency's (EPA) new Affordable Clean Energy rule has a limited near-term effect on public power issuers and will not change the long-term pressure on most public power utilities to reduce carbon dioxide (CO2) emissions, says Fitch Ratings. The new rule may result in a slower decline in coal-fired generation; however, it will not change the dynamics that have driven dramatic increases in both natural-gas fired and renewable generation. Competition from natural gas, state level renewable mandates and increasing interest in renewables from consumers, local governments and investors are expected to drive public power issuers toward emission reduction strategies.

The rule allows states to set carbon emission standards for coal-fueled power plants. States have three years to submit plans. The timeframe and the flexibility provided to the states allow coal-dominant public power issuers more leeway as they pursue economic dispatch of their resources. Issuers could opt to delay plans to shutter coal-fired capacity, benefitting from the continuance of capacity payments. Public power and cooperative utilities operating in states subject to high electricity and carbon reduction costs will benefit the most in the short to medium term from the new rule, as compliance costs will be less onerous.

Any increased flexibility, however, is expected to be short lived as cheaper natural gas and renewable energy, state carbon reduction targets, and consumer and investor decisions will increasingly pressure fossil-fired generation and facilitate the move toward lower CO2 emissions. There are 20 states that adopted renewable energy standards or goals applying to municipal and/or cooperative utilities. These initiatives, together with voluntary policies aimed at limiting investment in thermal coal, will push issuers to consider resource strategies and capital investments promoting reduced emissions. Furthermore, existing EPA rules, including those designed to reduce mercury, air toxins, effluent emissions and address risks related to the disposal of coal combustion residuals are expected to weigh on coal-fired power plants over time, requiring meaningful capital investment and limiting or raising the cost of operations.

The US Energy Information Administration forecasts that coal-fired generation as a share of US total utility electricity generation will continue to decline, averaging 24% in 2019 and 23% in 2020, down from 27% in 2018. Approximately 69 gigawatts (GW) of coal-fired capacity were retired since 2007. Existing coal-fired capacity totaled 239 GW at YE 2018. Total capacity is expected to decline to 223 MW by YE 2020 reflecting anticipated retirements.

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