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## Fitch: Environmental Costs Increase for California Public Power Utilities

Fitch Ratings-New York/Austin/San Francisco-26 October 2021: California public power utilities face increased costs as a result of extreme drought conditions that have reduced hydroelectric generation and increased wildfire risk, Fitch Ratings says. Public power utilities have taken actions to shore up their financial resilience in light of recurring droughts, including fortifying cash reserves and adopting automatic rate adjustors. Our report Drought and Wildfires Increase Costs for California Public Power Utilities notes credit quality is not expected to be affected, but utilities with already high operating cost burdens may see negative credit pressures.

Hydroelectric generation is expected to be 49% lower this year than last year according to the US Energy Information Administration, forcing utilities to purchase natural gas to meet power demands. Gas prices recently reached a seven-year high. Northern California utilities rely heavily on hydroelectric generation sources and are the most affected by higher purchased power costs. These utilities may implement higher retail electric rates and/or see reduced financial margins.

The drought exacerbated this year's wildfire season, which is set to exceed last year's record-setting season. A utility can be held financially liable for wildfire damage if its equipment is determined to have sparked a wildfire, even if lines were maintained in accordance with industry best practices and the utility is not found to have acted negligently, according to California's application of inverse condemnation. Utilities are spending increased amounts annually on wildfire prevention efforts and mitigation plan development and compliance.

The pace of clean energy regulation is more rapid in California than most other states, and investments in transmission and other new technologies to comply are also contributing to utilities' increased operating costs. California utilities have a higher operating cost burden,15.1 cents/kWh in 2020, than the average of 10.32 cents/kWh across Fitch's national portfolio of public retail electric utilities.

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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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