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Fitch: Bill Could Challenge Some CA Public Power Utilities.

Fitch Ratings-New York-15 September 2015: California's public power utilities could face additional financial pressure over the medium to long term following the state legislature's passage of SB 350, Fitch Ratings says. The Clean Energy and Pollution Reduction Act of 2015 includes a number of provisions that are expected to increase direct costs for public power utilities. The bill's more notable provisions include an increase of the state's renewable portfolio standard (RPS) to 50% by 2030 and additional efficiency and conservation programs. Utilities have already begun to transition their power supplies toward lower emission resources due to other state regulations, including a RPS of 33% by 2020.

Fitch expects compliance with the more stringent environmental regulation will require the state's public power utilities to transition an even greater portion of their power supply to less flexible and potentially more costly renewable energy. Rate flexibility and the ability to preserve financial metrics in the face of these regulatory changes will be fundamental to maintaining long-term credit quality.

The higher RPS requirement will be phased in over a 10-year period, with utilities mandated to reach interim targets of 40% by 2024, 45% by 2027 and 50% by the end of 2030. This significant increase in renewable energy will push public power utilities to identify and acquire resources that are generally more expensive and less flexible than thermal resources. Positively, the bill allows for the indefinite banking of certain resources beginning in 2021, which will allow those utilities that exceed their annual target to roll over credits toward future compliance years.

SB 350 is expected to be signed into law as the bill conforms in large part to the governor's previously stated objectives of raising the RPS to 50% and reducing greenhouse gas emissions to 40% below 1990 levels by 2030.

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