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## **Fitch: Declining Consumption Manageable for US Public Power.**

Fitch Ratings-New York-27 December 2016: Public power issuers will likely manage the projected long-term decline in residential electricity consumption by using their inherent rate flexibility and lowering capex, according to Fitch Ratings. Despite expectations of higher electric sales during the next four months, average household electric demand is forecast to decline by 11% through 2040, according to the US Energy Information Administration (EIA).

The long-term decline in electricity demand will likely be driven by conservation efforts, more efficient lighting technologies, increasing efficiency standards and growth in distributed generation, particularly rooftop solar. Improvements in battery storage technology, expanded federal investment incentives and favorable net metering arrangements in some states, could push electric sales down even further.

The EIA's Short-Term Energy Outlook forecasts the average residential customer will consume 4% more electricity from December 2016 through March 2017, than the same period last winter. The projected increase reflects the record warmth of the winter of 2015-2016 and not a reversal in the trend of declining residential consumption.

The EIA has forecast that overall residential electricity will grow by just 9.0%, or roughly 0.3% per annum, from 2015-2040 on growth in the number of households alone. Average household electric demand is forecast to decline by 11%. Residential users represent the largest customer segment for public power and cooperative issuers.

Fitch's outlook for the public power and electric cooperative sector is stable through 2017, despite expectations of declining consumption. While lower electric sales could pressure public power issuers' unit costs, and force changes to budgeting and resource planning, factors including the sector's autonomous rate-setting authority and improved rate design should limit this risk.

We also believe potential long-run consumption declines will be managed through reductions in planned investment, particularly new generating capacity. Many issuers already adopted this strategy. Capital investment, as a percentage of depreciation, steadily declined throughout the public power sector since 2010. Among other factors, consumption trends and ample access to excess energy production led to this decline. We expect capex spending to remain low during the near term as issuers delay plans for new production units and leverage opportunities to exploit market overcapacity.

Together, these strategies should reduce revenue requirements and moderate required rate increases throughout the sector, while supporting the sector's fundamental mission of providing safe, reliable and low-cost electric service.

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