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Fitch: Planning Key for Public Power Clean Energy Shift Under Illinois Law

Fitch Ratings-New York-28 September 2021: Illinois' new clean energy law does not have an immediate credit effect on public power utilities, says Fitch Ratings. Effectively managing the transition away from coal and natural gas will be key to mitigating cost pressures related to stranded resources. Illinois is the first midwestern state to pass sweeping clean energy legislation, which may provide a blueprint for other states to move away from fossil fuels.

The Climate and Equitable Jobs Act aims to achieve 100% clean energy generation by 2050 by phasing out coal and natural gas plants and investing in renewable energy sources. Renewable energy, which made up 11% of the state's energy in 2020, must comprise 40% by 2030 and 50% by 2040.

The two publicly-owned coal-fired stations in the state, the Prairie State Energy Campus (PSEC) and Springfield City Water, Light and Power's Dallman Station, must reduce carbon emissions 45% by 2035, plus a three-and-half-year grace period, and would be required to close by 2045 unless they completely eliminate carbon emissions. Emissions reduction at these levels involve closing one unit or deploying carbon capture technology, which is currently cost prohibitive.

Many bonds issued to finance the units mature well beyond 2035. However, the obligations of the nine PSEC owners, and the nearly 250 public power utilities supporting them, are unconditional and require payment of the PSEC project's total costs, including operating expenses and debt service for the life of the debt whether or not the project is operating or capacity was interrupted or suspended. If the PSEC units become stranded and the owners are precluded from realizing the long-term benefit of continuing plant operations and production, the long-term financial burden and higher operating costs could weigh on credit quality or limit financial upside at best.

The Act does not affect the credit quality of PSEC's owners and participating utilities in the near- to medium-term, as we expect plant operations and the cost burden to remain stable. The law provides a long lead time for participants to manage the transition but if production is limited they will need to plan for curtailed availability of the project and diversify power resources away from PSEC.

It is unclear to what extent the new law will affect utility customer rates but increases are likely over the long term. While the law provides for subsidies of about $47 million a year beginning in 2024 for converting coal-fired power plants into solar or energy storage facilities, it remains uncertain what, if any, benefits may accrue to the PSEC owners.

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