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Fitch: Rising Fuel Costs and Inflationary Trends Pressure Public Power

Fitch Ratings-New York/Austin-30 August 2022: Inflationary pressures and rising fuel costs could weaken credit quality across the public power sector if costs are not recovered in a timely manner, Fitch Ratings says. The US Energy Information Administration (EIA) forecasts power prices could double in 2022 from 2021 across the US as a result of higher commodity prices and capacity constraints that reduce available supplies of wholesale power. While increased fuel and purchased power costs are largely being passed through to retail and wholesale customers, broader inflationary pressures, including supply chain delays and capital investment escalation, could require additional rate increases to support credit quality, particularly if current trends persist in 2023.

Fitch's base case natural gas price expectations for 2022 and 2023 were recently raised by 47% and 23%, to $6.25/mcf and $4.00/mcf, respectively. However, Fitch expects natural gas prices to trend lower in 2024 and stabilize at $2.75/mcf by 2025, with heightened fuel cost pressures also declining over the next two years.

Increases in coal commodity and transportation costs, although less than those for natural gas, and higher replacement power costs for drought-related reductions in hydropower are also contributing to higher electric prices. US power markets remain reliant on natural gas-fired and coal-fired generation for over 57% of the energy supply.

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