

# **Bond Case Briefs**

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## **State Laws Shield Many Municipal Natural Gas Utilities From Energy Transition-Related Demand Erosion: S&P**

### **Key Takeaways**

- S&P Global Ratings rates 40 municipal gas utilities, 32 of which operate in states that preclude counties and cities from banning new natural gas connections.
- Based on these states' laws, we believe the 32 utilities are unlikely to experience intermediate-term erosion of demand for natural gas that might otherwise weaken their creditworthiness as the energy transition proceeds.
- We believe that any negative pressure on existing gas sales will be manageable for the eight utilities that operate in states where they are not shielded by protective regulatory measures and might become exposed to prohibitions on connecting new gas appliances.
- Current mandates apply to new construction and the replacement of existing appliances; they do not require property owners to replace functioning gas appliances. We believe cost considerations will limit voluntary replacements.
- The Inflation Reduction Act's tax credits for electric heat pumps and hot water heaters cover only a portion of conversion costs and, therefore, might not provide a sufficient catalyst for property owners to voluntarily accelerate their transition to electric appliances from gas, although combining some states' incentives with federal tax credits might make the move more attractive.

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