Industry Top Trends Update

Unregulated Power

Capacity markets disappoint more than expected

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What's changed?

Prices in all capacity markets turned out lower than expected. The decline is particularly severe in PJM's RTO and ComEd zones. A combination of demand loss, reentering nuclear capacity, natural gas and solar supply, and fixed resource requirement-based withdrawals all contributed. With ~2.7 GW of incremental gas-fired capacity likely going into the next auction, capacity prices could remain low.

Conversely, energy prices have taken off. Compared with power prices at year end 2020, 7x24 prices in PJM West for 2021 through 2024 are up 18% (to 5%), while ERCOT (Texas) prices between 2022 and 2024 are up 50% (to 20%). We expect IPPs to engage in aggressive forward hedging of generation.

Winter Storm Uri. The sever winter storm drove commodity prices higher and exposed systemic risks that need to be addressed.

Nuclear units could find federal support. Legislation in both the House (Pascrell) and Senate (Cardin) could provide nuclear production tax credits through 2030.

Continuing erosion in credit quality of smaller term loan B project financed assets. Many financings were hindered by milder winter weather in the past two years, and COVID-19 put many transactions at risk. Despite higher power prices, we expect more negative rating actions.

How is recovery taking shape?

Full recovery will take a few quarters. Demand appears to be reverting to 2019 levels in 2022, and the growth varies widely across the country.

Large scale coal-fired retirements. We've seen 5 GW of coal-fired capacity announce retirement in the PJM. A wave of coal-fired retirements could mitigate the decline in capacity prices as demand builds post-COVID. Similarly, the implementation of peaker rules in New York should buttress capacity prices.

Residential retail demand across the country has held up and, in most regions, has risen. ERCOT has been buoyed by weather and shows the least demand weakness.

What are the key risks around the baseline?

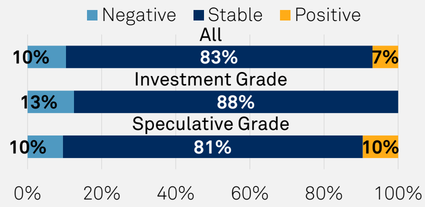
Demand could still be irreparably harmed. Declining loads could have a secular slant, which could hurt power prices over the long run.

Power prices climb has been driven by natural gas prices. A combination of hot weather, pipeline constrains, demand for LNG, and lower storage levels has resulted in significantly higher gas prices. Spark spreads have also expanded. Moderating temperatures and a slowdown in demand from a third wave could break this rally.

Latest Related Research

- Unregulated Power: S&P Global Ratings Updates Its Capacity Price Assumptions, May 3, 2021
- Industry Report Card: The Outlook On The U.S. Merchant Power Sector Is Negative, April 16, 2021
- Without Firm Power, U.S. Independent Power Producers' Credit Could Soften, April 5, 2021

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	8	21	29
Downgrades	1	2	3
Upgrades	0	0	0

Ratings data as of end-June, 2021

COVID-19 Heat Map

Power	
Estimated Recovery To 2019 Credit Metrics	2022
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
10% to 15%	0% to 10%	No increase

2021 Estimates v. 2019	
Revenue Decline	EBITDA Decline
0% to 10%	0% to 10%