S&P Global Ratings

Unregulated Power

Now comes the demand deluge

This report does not constitute a rating action.

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What's changed?

We expect a few IPPs to incorporate in 2024. Market consultants believe power demand could increase at a 15% compound annual growth rate over 2023-2030. This surge, and the ensuing confidence in longer asset lives, is driving a favorable sentiment and should provide credit tailwinds for the entire sector, including the formation of several IPPs, some by the aggregation of project financed assets by sponsors.

Our views on California-ISO and ERCOT. Dispatchable generation is a growing need. We expect resource adequacy payments in California to remain high because of concerns about retirement of base-load generation. But we think California's deployment of long-duration batteries is the right intermittency solution. In contrast, we see ERCOT's hitherto reliance on 1-2 hour batteries as a butterknife in the intermittency gunfight. The greater price volatility in ERCOT should benefit generators.

What to look out for?

More datacenter transactions. As 'large loads' have experienced infrastructure constraints, hyperscalers have looked elsewhere for data center sites. Recently, Talen Corp announced a data center transaction with Amazon Web Services (AWS). We will be surprised if more nuclear power generators do not announce similar transactions by year-end 2024.

Sponsors to monetize their assets. This will be a time for many to hold, but equally for many to fold. As is typical in any upcycle, we expect some sponsors to monetize their investments. Some portfolios are already being offered for sale.

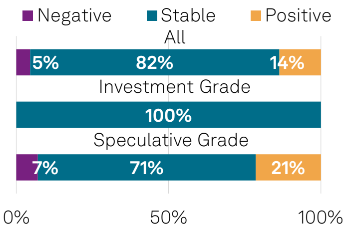
What are the key risks around the baseline?

Demand surge narrative could be oversold. While electrification, onshoring of manufacturing, and large load datacenter needs are real, the ability to deploy concomitant infrastructure is a significant concern.

ERCOT's expected demand growth and warmer summer. ERCOT's higher anticipated load growth also raises concerns about summer dispatchable generation shortages. The Texas Energy Fund's (TEF) 10 GW loan program will not add generation until 2027-2028. We are monitoring summer demand/supply dynamics. Also, given recent extreme weather, load loss in the winter is a possibility. Expansion of the TEF to include more gas-fired generation is a credit risk for generators as it will curb higher power prices.

Rating Trends

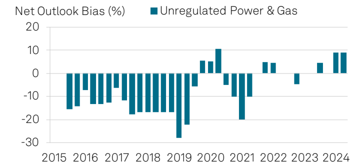
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	8	14	22
Downgrades	0	0	0
Upgrades	1	0	1

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	9.4	-6.6
EBITDA growth (Y/Y%)	-0.5	-5.3
EBITDA margin (%)	30.7	51.8
Capex growth (Y/Y%)	47.4	-16.3
Debt/EBITDA (x)	2.0	4.3
FFO/Debt (%)	38.5	16.3
FOCF/Debt (%)	7.8	10.2

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Power Sector Update: The Piper At The Gates Of Dawn, April 1, 2024

Power Sector Update: Credit Drivers In The California And Texas Power Markets, June 18, 2024