Announcement: Moody's: Wind and solar power will continue to erode thermal generators' credit quality

Global Credit Research - 06 Nov 2012

London, 06 November 2012 -- Further expected increases in renewable energy will continue to erode the credit quality of European thermal generation companies in the near to medium term, says Moody's Investors Service in a Special Comment published today.

The new report, entitled "European Utilities: Wind and Solar Power Will Continue to Erode Thermal Generators’ Credit Quality", is now available on www.moodys.com. Moody's subscribers can access this report via the link provided at the end of this press release.

"Large increases in renewables have had a profound negative impact on power prices and the competitiveness of thermal generation companies in Europe," says Scott Phillips, an Assistant Vice President - Analyst in Moody's Infrastructure Finance Group. "What were once considered stable companies have seen their business models severely disrupted and we expect steadily rising levels of renewable energy output to further affect European utilities' creditworthiness."

Moody's notes that many European countries are considering the introduction of capacity payments to incentivise thermal generators to remain online. Utilities argue that the intermittent nature of renewables makes these mechanisms essential to address security-of-supply concerns, although politicians will be cautious about burdening the consumer with additional costs. Capacity mechanisms would be credit positive for Moody's rated utilities, although their timing and structure remains uncertain.

The European Commission continues to address the potential balancing and stability problems by promoting interconnection. The 'Third Package' aims to remove some of the barriers but its development is still subject to regulatory, political and financial hurdles. The preference for a fully regulated model, with tariffs underpinned by consumers, could prove a sticking point given the impact on tariffs, and the impact on power prices in lower priced regions could prove a further political barrier. If realised, price increases in regions such as the Nord Pool would be credit positive for Fortum Oyj (A2 stable), Dong Energy A/S (Baa1 stable), Vattenfall AB (A2 negative) and Statkraft AS (Baa1 stable), while price decreases for high priced regions (such as the UK) would be credit negative.

Some European utilities are considering electricity storage as a means to manage the impact of further increases in renewable energy. In Italy, Terna - Rete Elettrica Nazionale S.p.A. (Baa1 negative) has earmarked €1.0 billion to invest in batteries and E.ON AG (A3 stable) has commenced construction of a 2 megawatt hydrogen electrolysis plant in Germany. While these emerging technologies are currently small-scale and prohibitively expensive, Moody's cautions that storage does have the potential to further negatively affect peak power prices and would increase the competitiveness of renewables -- a credit negative for thermal generators.

European utilities can hope for favourable new policies such as capacity payments but these may be difficult to achieve in the context of affordability. Ultimately, renewable companies, utilities and network operators may be forced into a three-way lobbying battle to secure a share of the total revenue pot. Utilities must therefore adapt to this new paradigm or risk being squeezed out.

Subscribers can access this report via this link: http://www.moodys.com/research/European-Utilities-Wind-and-Solar-Power-Will-Continue-to-Erode--PBC_146913

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines:
London +44-20-7772-5456, New York +1-212-553-0376, Tokyo +813-5408-4110, Hong Kong +852-3758-1350, Sydney +61-2-9270-8141, Mexico City 001-888-779-5833, São Paulo 0800-891-2518, or Buenos Aires 0800-666-3506. You can also email us at mediarelations@moodys.com or visit our web site at www.moodys.com

Scott Phillips
Asst Vice President - Analyst
Infrastructure Finance Group
Moody's Investors Service Ltd.
appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.