



Take Advantage of the Secular Trend Away From Coal-fired Power Generation

Description

The secular trend to clean energy continues to gain momentum. Governments are determined to reduce carbon emissions as a means of fighting global warming. One of the key targets is coal-fired electricity generation as it is one of the largest producers of greenhouse emissions globally.

This is set to have a sharp impact on a number of Canada's electric utilities as many are dependent upon coal-fired plants to generate a considerable portion of their electricity output. As a result they are becoming increasingly unattractive investments in an industry that is highly popular among investors because of its non-cyclical and defensive characteristics.

Now what?

The most vulnerable Canadian electric utilities are those operating in Alberta because the NDP government is leading the charge, proposing stringent regulations that are specifically targeting coal-fired power plants. This has put two of the provinces largest electric companies, **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) and **Capital Power Corporation** ([TSX:CPX](#)) on notice because they are dependent upon coal-fired plants to generate the majority of their electricity.

In recent years, both companies have made considerable investments in clean-carbon technology for their coal-fired plants, including a combined \$3 billion investment in the construction of the Keephills 3 power plant that commenced operations in 2011. This plant uses clean air technology to reduce emissions and is expected to have an operating lifespan of 50 years, but there are signs this could be halved.

One of the outcomes from Alberta's stricter legislation is that the retirement of existing coal-fired plants in the province could be sped up. This would reduce their operating lives and the potential return they will generate for their owners. There are also similar moves afoot in the U.S., where TransAlta and Capital Power operate coal-fired or solid fuel power plants.

I expect these changes to have a significant impact on the financial performance of these companies as they are forced to invest in transitioning their portfolios away from coal. The impact of this trend doesn't stop there. It will also have a sharp effect on coal miners and railway companies as the

demand for coal falls. This doesn't bode well for **Canadian National Railway Company** and **Canadian Pacific Railway Ltd.**

However, there are those companies operating in the utilities sector that are set to benefit from this secular trend.

Key among them is **Brookfield Renewable Energy Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)), one of the largest generators of clean electricity in North America. In fact, with 50% of its assets located in the U.S., it is uniquely positioned to capture higher energy and capacity prices in the future and to benefit from the improving U.S. economy.

Another company that will benefit is **Atlantic Power Corporation** (TSX:ATP)(NYSE:AT), which generates over 80% of its electricity from clean energy sources. This trend may just be the much-needed tailwind to turn the company around.

So what?

The decline of coal-fired electricity generation because of growing concerns of greenhouse emissions may not be a good thing for TransAlta or Capital Power, but it will certainly be a powerful tailwind for Brookfield Renewable and Atlantic Power. Both companies will perform stronger over the long term with Brookfield Renewable in the best position of the majority of clean energy companies to benefit.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:CPX (Capital Power Corporation)
5. TSX:TA (TransAlta Corporation)

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