

FITCH WIRE

Federal Spending to Rapidly Expand EV Infrastructure

Tue 22 Nov, 2022 - 2:13 PM ET

Fitch Ratings-New York/San Francisco-22 November 2022: State departments of transportation (DOTs) will leverage federal funding provided for electric vehicle (EV) charging stations under the Infrastructure Investment and Jobs Act (IIJA) to procure EV infrastructure, with public private partnerships (P3s) a viable delivery method for EV projects, Fitch Ratings says. Funds are allocated to the states, which have a 20% matching requirement, and some DOTs are poised to partner with private enterprises who have the expertise to design, build, finance, operate and maintain charging infrastructure.

The IIJA provides \$7.5 billion for EV charging infrastructure, including construction, upgrades, five years of operating and maintenance costs, with the goal of installing 500,000 chargers by 2030. While the private sector has moved quickly to roll out EV charging stations, coverage is concentrated in more affluent and urban areas where risk adjusted returns were strongest, leaving significant gaps in rural and low-income regions. Funds under the IIJA advance the public policy goal of filling these gaps, similar to the Inflation Reduction Act, which provides a tax credit of up to \$100,000 per device for EV charging stations in rural or low-income areas.

Of the \$7.5 billion, \$5 billion is distributed according to a formula, with 10% of each fiscal year's allotment reserved to fill gaps in the national network through discretionary grants. Current guidance requires states to apply 40% of their formulaic allocation to benefit

disadvantaged communities. The remainder of total EV infrastructure funds, \$2.5 billion, is distributed via competitive grants, 50% of which must be applied to EV infrastructure in rural and low- and moderate-income communities. It is unclear how many projects that may have proceeded with private funds will now benefit from federal grants. The Federal Highway Administration has approved all of the EV infrastructure plans that have been submitted by all 50 states, DC and Puerto Rico.

Urban areas are conducive to demand-based infrastructure P3s that generate cash flow to pay debt service and return a profit to the developer. However, the IJJA's focus on charging stations in economically disadvantaged communities where demand is likely lower may lend itself the use of availability payment-based P3s, which expose the sponsoring government, not the developer, to demand risks. The average price of an EV, approximately \$64,000, is similar to luxury vehicle pricing, according to Kelley Blue Book, and is not much less than the real median U.S. household pre-tax income of approximately \$71,000.

As more EV charging stations come online, the ownership and revenue structure of projects will vary. The private ownership paradigm, akin to gas stations, is likely to be the most prominent. It is unclear if private ownership will remain diversified among car manufacturers, specialty EV charging companies, and utilities over the long term. Public policy varies, including support for municipal charging networks and rebates or other private investment incentives. States with a track record of pursuing P3 projects are more likely to consider a P3 framework for delivering EV charging infrastructure. Texas DOT's EV infrastructure proposal indicates the state has no plans to own or operate charging stations, while California builds stations with funds from various fees including vehicle registration.

Electricity demand will grow with increased EV car ownership and charging stations, highlighting the need for reliable supply. Federal guidance, which has yet to be finalized, indicates that EV charging stations must be interoperable across technology and have 24-hour availability with 97% reliability. McKinsey estimates that if EV ownership meets the Fed's 2030 uptake goal, the U.S. will need to generate 230 billion kWh just to charge EVs, up from 11 billion kWh currently. Grid reliability is a concern as power utilities increasingly turn to renewable resources. During California's heat wave earlier this year, grid reliability/demands on power supply resulted in the governor asking residents not to charge their EVs during peak hours to avoid blackouts.

Contacts:

Scott Monroe

Senior Director, Infrastructure and Project Finance

+1 415 732 5618

Fitch Ratings, Inc.

One Post Street, 9th Fl.

San Francisco, CA 94104

Anne Tricerri

Director, Infrastructure and Project Finance

+1 646 582 4676

Fitch Ratings, Inc.

Hearst Tower

300 W. 57th Street

New York, NY 10019

Sarah Repucci

Senior Director, Fitch Wire

Credit Policy - Research

+1 212 908 0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:

sandro.scenga@thefitchgroup.com

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following

<https://www.fitchratings.com/rating-definitions-document> details Fitch's rating

definitions for each rating scale and rating categories, including definitions relating to

default. Published ratings, criteria, and methodologies are available from this site at all

times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided 'as is' without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a

Nationally Recognized Statistical Rating Organization (the 'NRSRO'). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the 'non-NRSROs') and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Industrials and Transportation Infrastructure and Project Finance North America

United States
