Edison Electric
INSTITUTE

Credit Ratings

Q4 2021
FINANCIAL UPDATE

QUARTERLY REPORT
OF THE U.S. INVESTOR-OWNED
ELECTRIC UTILITY INDUSTRY

About EEI

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies, with operations in more than 90 countries, as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

About EEI's Quarterly Financial Updates

EEI's quarterly financial updates present industry trend analyses and financial data covering 44 U.S. investor-owned electric utility companies. These 44 companies include 39 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and five electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

- Stock Performance
- Dividends
- Credit Ratings
- Rate Review

EEI Finance Department material can be found online at: www.eei.org/QFU.

For EEI Member Companies

The EEI Finance and Accounting Division maintains current year and historical data sets that cover a wide range of industry financial and operating metrics. We look forward to serving as a resource for member companies who wish to produce customized industry financial data and trend analyses for use in:

- Investor relations studies and presentations
- Internal company presentations
- Performance benchmarking
- Peer group analyses
- Annual and quarterly reports to shareholders

We Welcome Your Feedback

EEI is interested in ensuring that our publications and industry data sets best address the needs of member companies and the regulatory and financial communities. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

EEI Financial Conference
November 13-15, 2022
Diplomat Resort & Spa
Hollywood, Florida

For more information about future EEI Finance Meetings, please contact Aaron Cope, Jr. at (202) 508-5128 or acope@eei.org.

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The 44 U.S. Investor-Owned Electric Utilities

The companies listed below all serve a regulated distribution territory. Other utilities, such as transmission provider ITC Holdings, are not shown below because they do not serve a regulated distribution territory. However, their financial information is included in relevant EEI data sets, such as transmission-related construction spending.

ALLETE, Inc. (ALE)
Alliant Energy Corporation (LNT)
Ameren Corporation (AEE)
American Electric Power Company, Inc. (AEP)
AVANGRID, Inc. (AGR)
Avista Corporation (AVA)
Berkshire Hathaway Energy
Black Hills Corporation (BKH)
CenterPoint Energy, Inc. (CNP)
Cleco Corporation
CMS Energy Corporation (CMS)
Consolidated Edison, Inc. (ED)
Dominion Energy, Inc. (D)
DPL, Inc.
DTE Energy Company (DTE)
Duke Energy Corporation (DUK)
Edison International (EIX)
Entergy Corporation (ETR)
Evergy, Inc. (EVRG)
Eversource Energy (ES)
Exelon Corporation (EXC)
FirstEnergy Corp. (FE)
Hawaiian Electric Industries, Inc. (HE)
IDACORP, Inc. (IDA)
IPALCO Enterprises, Inc.
MDU Resources Group, Inc. (MDU)
MGE Energy, Inc. (MGEE)
NextEra Energy, Inc. (NEE)
NiSource Inc. (NI)
NorthWestern Corporation (NWE)
OGE Energy Corp. (OGE)
Otter Tail Corporation (OTTR)
PG&E Corporation (PCG)
Pinnacle West Capital Corporation (PNW)
PNM Resources, Inc. (PNM)
Portland General Electric Company (POR)
PPL Corporation (PPL)
Public Service Enterprise Group Inc. (PEG)
Puget Energy, Inc.
Sempra Energy (SRE)
Southern Company (SO)
Unitil Corporation (UTL)
WEC Energy Group, Inc. (WEC)
Xcel Energy, Inc. (XEL)

Note: Companies shown in italics are not listed on U.S. stock exchanges for one of the following reasons — they are subsidiaries of an independent power producer; they are subsidiaries of foreign-owned companies; or they were acquired by other investment firms.

Companies Listed by Category
(Based on Business Segmentation Data as of 12/31/2020)

Please refer to the Quarterly Financial Updates webpage for previous years' lists.

Given the diversity of utility holding company corporate strategies, no single company categorization approach will be useful for all EEI members and utility industry analysts. Nevertheless, we believe the following classification provides an informative framework for tracking industry financial trends.

Regulated	80% or more of total assets are regulated
Mostly Regulated	Less than 80% of total assets are regulated

Categorization is based on year-end business segmentation data presented in SEC 10-K filings, supplemented by discussions with and information provided by parent company IR departments.

The EEI Finance and Accounting Division continues to evaluate our approach to company categorization and business segmentation. In addition, we can produce customized categorization and peer group analyses in response to member company requests. We welcome comments, suggestions and feedback from EEI member companies and the financial community.

Regulated (35 of 44)

Alliant Energy Corporation
Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
Black Hills Corporation
CenterPoint Energy, Inc.
Cleco Corporation
CMS Energy Corporation
Consolidated Edison, Inc.
Dominion Energy, Inc.
DPL Inc.
Duke Energy Corporation
Edison International
Entergy Corporation
Evergy, Inc.
Eversource Energy
FirstEnergy Corp.
IDACORP, Inc.
IPALCO Enterprises, Inc.
MGE Energy, Inc.
NiSource Inc.
NorthWestern Corporation
OGE Energy Corp.
Otter Tail Corporation
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
PPL Corporation
Puget Energy, Inc.
Sempra Energy
Southern Company
Unitil Corporation
WEC Energy Group, Inc.
Xcel Energy Inc.

Mostly Regulated (9 of 44)

ALLETE, Inc.
AVANGRID, Inc.
Berkshire Hathaway Energy
DTE Energy Company
Exelon Corporation
Hawaiian Electric Industries, Inc.
MDU Resources Group, Inc.
NextEra Energy, Inc.
Public Service Enterprise Group Incorporated

Note: Companies shown in italics are not listed on U.S. stock exchanges for one of the following reasons — they are subsidiaries of an independent power producer; they are subsidiaries of foreign-owned companies; or they were acquired by other investment firms.

Q4 2021

Credit Ratings

HIGHLIGHTS

■ The average parent company credit rating in 2021 was BBB+, a level that has held since 2014. The year's 52 total actions was below the 73-action annual average of the previous ten calendar years.

■ Industry credit quality generally improved over the past decade, although it experienced a slight decline, in aggregate, in each of the last three years. The five-year period 2013 through 2017 produced the five highest upgrade percentages in our 22 years of historical data.

■ On December 31, 2021, 68.2% of parent company ratings outlooks were "stable", 9.1% were "positive" or "watch-positive", and 22.7% were "negative" or "watch negative".

■ The three major rating agencies remain somewhat divergent in their outlooks for 2022. S&P maintained a negative outlook, Moody's outlook remained stable and Fitch held its neutral outlook. While the agencies noted regulatory relations are broadly constructive, managing regulatory risk and financial metrics in an era of high capex and potentially rising costs were cited as concerns.

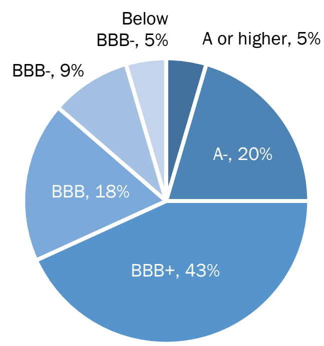
COMMENTARY

The industry's average parent company credit rating in 2021 remained at BBB+ for an eighth straight year, although three parent-level downgrades versus one upgrade caused a slight weakening in aggregate holding company credit quality. There were only 52 total actions — 20 upgrades and 32 downgrades — affecting both parents and subsidiaries. This pace was below the 73-action annual average of the previous ten calendar years and is the third-lowest annual total in our historical dataset (back to 2000).

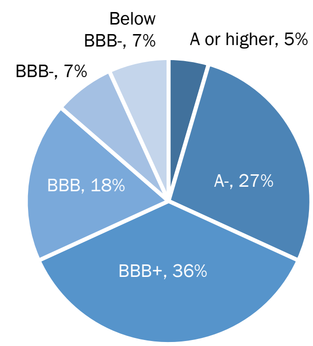
On December 31, 2021, 68.2% of parent company rat-

I. S&P Utility Credit Ratings Distribution

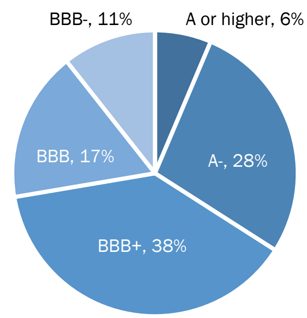
U.S. Investor-Owned Electric Utilities (parent level only)



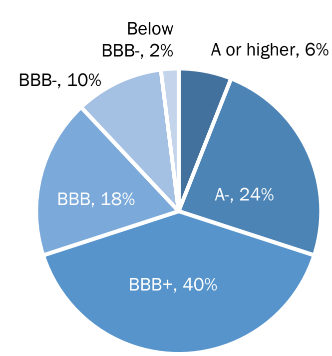
At 12/31/2021



At 12/31/2020



At 12/31/2018

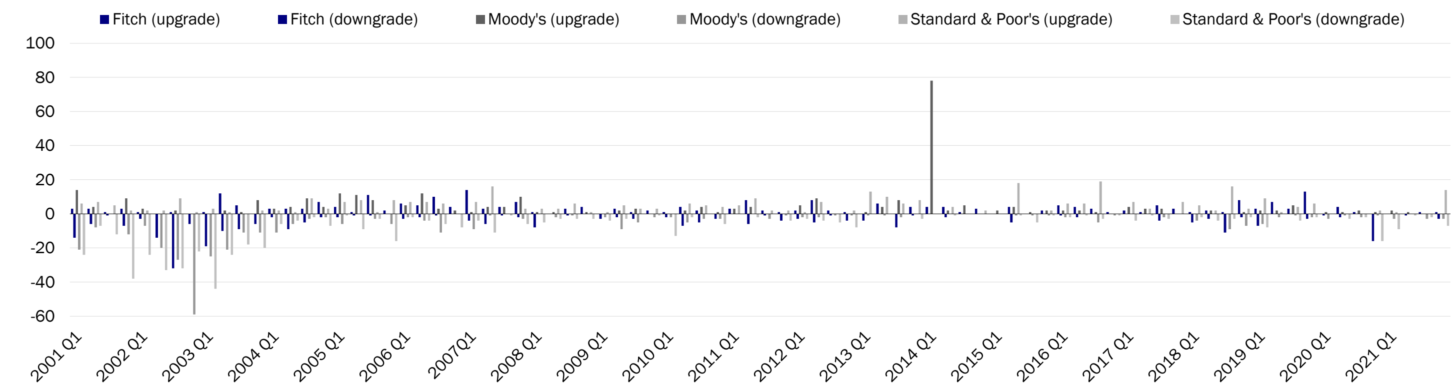


At 12/31/2016

Note: Rating applies to utility holding company entity.
Source: Standard & Poor's, S&P Global Market Intelligence, and EEI Finance Dept.

II. Credit Rating Agency Upgrades and Downgrades

U.S. Investor-Owned Electric Utilities (parent and subsidiary companies)



	2016				2017				2018				2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fitch (upgrade)	5	4	3	1	2	1	5	3	1	2	1	8	3	7	3	13	0	4	1	0	0	0	1	1
Fitch (downgrade)	-1	-2	0	0	0	0	-4	0	-5	-3	-11	-2	-7	0	0	-3	-1	-2	0	-16	0	-1	0	-3
Moody's (upgrade)	2	2	1	0	4	3	3	0	0	2	0	1	2	2	5	0	1	1	2	1	2	1	0	0
Moody's (downgrade)	-2	0	-5	-1	0	0	-2	0	-4	0	-9	-7	-6	-2	-1	-2	-3	-1	-2	-1	-3	0	-3	-3
S&P (upgrade)	6	6	19	0	7	3	0	7	5	2	16	3	9	1	4	6	0	0	0	2	1	0	0	14
S&P (downgrade)	-2	-1	-3	-1	-4	-1	-3	0	-2	-4	-3	-2	-8	0	-4	-2	0	-3	-2	-16	-9	-1	-2	-7

Note: Chart depicts the number of upgrades / downgrades for all rated companies, including subsidiaries, during the quarter.
Source: S&P Global Market Intelligence and EEI Finance Dept.

III. Total Ratings Actions

U.S. Investor-Owned Electric Utilities (parent and subsidiary companies)

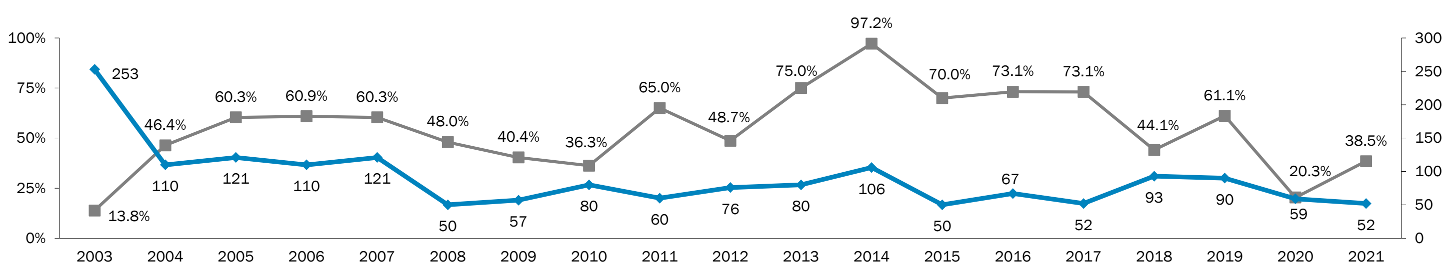
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fitch	34	22	31	41	17	14	24	25	26	23	14	11	16	15	33	36	24	6
Moody’s	42	46	39	32	6	23	20	11	20	17	85	12	13	12	23	20	12	12
S&P	34	53	40	48	27	20	36	24	30	40	7	27	38	25	37	34	23	34
Total	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52

Source: S&P Global Market Intelligence and EEI Finance Dept.

IV. Direction of Ratings Actions

U.S. Investor-Owned Electric Utilities (parent and subsidiary companies)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Upgrades	35	51	73	67	73	24	23	29	39	37	60	103	35	49	38	41	55	12	20
Downgrades	218	59	48	43	48	26	34	51	21	39	20	3	15	18	14	52	35	47	32
% Upgrades	13.8	46.4	60.3	60.9	60.3	48.0	40.4	36.3	65.0	48.7	75.0	97.2	70.0	73.1	73.1	44.1	61.1	20.3	38.5
Total Actions	253	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52



Source: Fitch Ratings, Moody's, Standard & Poor's

V. S&P Utility Credit Rating Distribution by Company Category

U.S. Investor-Owned Electric Utilities (parent level only)

	12/31/2014		12/31/2015		12/31/2016		12/31/2017		12/31/2018		12/31/2019		12/31/2020		12/31/2021	
REGULATED																
A or higher	1	3%	1	3%	2	6%	2	6%	1	3%	1	3%	1	3%	1	3%
A-	8	21%	8	22%	10	28%	12	34%	11	32%	11	31%	11	32%	8	23%
BBB+	12	32%	12	33%	13	36%	10	29%	11	32%	11	31%	10	29%	14	40%
BBB	14	37%	12	33%	8	22%	7	20%	7	21%	8	23%	7	21%	7	20%
BBB-	1	3%	1	3%	3	8%	4	11%	4	12%	2	6%	2	6%	3	9%
Below BBB-	2	5%	2	6%	0	0%	0	0%	0	0%	2	6%	3	9%	2	6%
Total	38	100%	36	100%	36	100%	35	100%	34	100%	35	100%	34	100%	35	100%
MOSTLY REGULATED																
A or higher	1	8%	1	8%	1	8%	1	7%	2	15%	1	10%	1	10%	1	11%
A-	4	31%	5	38%	2	17%	2	14%	2	15%	1	10%	1	10%	1	11%
BBB+	4	31%	5	38%	7	58%	7	50%	7	54%	7	70%	6	60%	5	56%
BBB	2	15%	1	8%	0	0%	2	14%	1	8%	0	0%	1	10%	1	11%
BBB-	2	15%	1	8%	1	8%	1	7%	1	8%	1	10%	1	10%	1	11%
Below BBB-	0	0%	0	0%	1	8%	1	7%	0	0%	0	0%	0	0%	0	0%
Total	13	100%	13	100%	12	100%	14	100%	13	100%	10	100%	10	100%	9	100%
DIVERSIFIED																
A or higher	0	0%	0	0%	0	0%										
A-	0	0%	0	0%	0	0%										
BBB+	1	50%	1	50%	0	0%										
BBB	0	0%	0	0%	1	50%										
BBB-	1	50%	1	50%	1	50%										
Below BBB-	0	0%	0	0%	0	0%										
Total	2	100%	2	100%	2	100%										

Sources: Standard & Poor's, S&P Global Market Intelligence, and EEI Finance Dept.

ings outlooks were "stable" and 9.1% were "positive" or "watch-positive". The 22.7% share that was "negative" or "watch negative", down from 31.8% at year-end 2020, was in line with the 18.2% and 23.4% shares at yearend 2019 and 2018, respectively.

Electric utility industry credit quality generally improved over the past decade, although it experienced a slight decline, in aggregate, in each of the last three years. Aggregate parent-level credit had steadily strengthened from 2013 through 2018. Across the numerically larger universe that includes both parents and subsidiaries, the five-year period 2013 through 2017 produced the five highest upgrade percentages in our 22 years of historical data. Moreover, upgrades outnumbered downgrades in six of the past ten calendar years with an annual average upgrade percentage of 60.1% over the decade.

EEI captures upgrades and downgrades at both the parent and subsidiary levels. The industry's average credit rating and outlook are the unweighted averages of all S&P parent holding company ratings and outlooks. However, our upgrade/downgrade totals reflect all actions by the three major ratings agencies directed at parent holding companies as well as individual subsidiaries. Our universe of 44 U.S. parent company electric utilities at December 31, 2021 included 39 that are publicly traded and five that are either a subsidiary of an independent power producer, a subsidiary of a foreign-owned company or owned by an investment firm.

The three major rating agencies remain somewhat divergent in their outlooks for 2022. S&P maintained a negative outlook, Moody's outlook remained stable and Fitch held its neutral outlook. While the agencies noted regulatory relations are broadly constructive, managing regulatory risk and financial metrics in an era of high capex and potentially rising costs were cited as key concerns.

Credit Actions at Parent Level

Parent-level ratings actions in 2021 included three downgrades and one upgrade. By comparison, there were three downgrades, one upgrade and one reinstatement in 2020, five downgrades and one upgrade in 2019, and six upgrades and two downgrades in 2018.

Duke Energy

On January 26, S&P downgraded Duke Energy to BBB+ from A- after Duke's North Carolina utilities (Duke Energy Carolinas and Duke Energy Progress) reached a rate settlement agreement where they would forgo recovery of roughly $1.1 billion in coal ash management costs.

Southern Co.

On October 27, S&P lowered Southern Co.'s issuer credit rating to BBB+ from A-, observing that construction delays and higher costs at Vogtle Units 3 and 4 indicate heightened construction risk until these nuclear generating facilities are in service. S&P said the two units have experienced significant construction delays and more than $4 billion in higher costs since mid-2018. S&P also lowered the ratings of subsidiaries Alabama Power (A- from A), Georgia Power (BBB+ from A-), Mississippi Power (BBB+ from A-), and Southern Power (BBB from BBB+).

FirstEnergy

On November 8, S&P raised FirstEnergy's rating by two notches to BBB- from BB based on recent significant improvements to the company's business risk and financial measures. The higher rating incorporates the effects of FirstEnergy's proposed minority sale of FirstEnergy Transmission LLC, the issuance of common equity, and the settlement in multiple Ohio proceedings.

Pinnacle West Capital

On November 9, S&P downgraded Pinnacle West's rating to BBB+ from A due to a recent rate decision in Arizona. The downgrade reflects the Arizona Corporate Commission's final order, which included a reduced authorized ROE of 8.7% and a $119 million base rate reduction in the form of a $5 million rate decrease and denied recovery of $216 million of pollution control investments. S&P expects Pinnacle West's credit metrics to suffer as a result of regulatory lag from the lower ROE and disallowance of investment and cost recovery. S&P also downgraded subsidiary Arizona Public Service to BBB+ from A-.

VI. Credit Ratings Distribution

Investment Grade	Moody's	S&P	Fitch
	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
Speculative Grade	**Moody's**	**S&P**	**Fitch**
	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	CCC+
	Caa2	CCC	CCC
	Caa3	CCC-	CCC-
	Ca	CC	CC
	C	C	C
Default	**Moody's**	**S&P**	**Fitch**
	C	D	D

Source: Fitch Ratings, Moody's, Standard & Poor's

Ratings Activity Remained Slow in 2021

The 52 rating changes during 2021 (upgrades plus downgrades), seven fewer than in 2020, was the third-lowest total of any year back to our dataset's inception in 2000. By comparison, there were 90 actions in 2019, 93 in 2018, and an annual average of 73 over the last decade. Given the heightened activity in 2019 and 2018, a slowdown in 2020 and 2021 is not surprising.

The industry's 20 upgrades in 2021 versus 32 downgrades produced an upgrade percentage of 38.5%, up from 20.3% in 2020 but below the 61.1% result in 2019. The five-year period 2013 through 2017 produced the five-highest upgrade percentages in our historical data. Upgrades outnumbered downgrades in six of the past ten calendar years, with an annual average upgrade percentage of 60.1%.

Table II presents quarterly activity by all three ratings agencies. Following are full-year totals for 2021:

- Fitch (2 upgrades, 4 downgrades)
- Moody's (3 upgrades, 9 downgrades)
- Standard & Poor's (15 upgrades, 19 downgrades)

Improved Metrics, Regulatory Outcomes Spur Upgrades

Most of the year's 20 upgrades were based on significant improvements to business risk and financial measures, while several were due to favorable regulatory outcomes.

Along with FirstEnergy, 13 of its subsidiaries were also upgraded on November 8 in recognition of the company's recent significant improvements to its business risk and financial measures. Twelve of those subsidiaries were increased two notches, to BBB from BB+, with Allegheny Generating Company rising one notch to BB+ from BB.

On March 23, S&P upgraded Hawaiian Electric Company (HECO), the utility operating company of Hawaiian Electric Industries (HEI), to BBB from BBB-. S&P cited the strength of HECO's financial measures and regulatory protections. On April 20, Moody's also upgraded HECO to Baa1 from Baa2, reflecting the company's considerable progress adding renewable resources to its energy supply mix and its improving regulatory relationship with the Hawaii Public Utilities Commission. Parent company HEI derives about 80% of its cash flow from operations and 75% of its operating income from HECO. HEI relies to a lesser extent on its banking subsidiary, American Savings Bank, which S&P also views as having an investment-grade credit profile.

On March 30, Moody's upgraded Sempra Energy subsidiary San Diego Gas & Electric (SDG&E) to A3 from Baa1, reflecting the agency's expectation that SDG&E will maintain robust credit metrics. The upgrade also considers SDG&E's track record of effective wildfire risk mitigation and the credit support provided by wildfire fund legislation enacted by the state of California in July 2019. Moody's said the combination of these factors has reduced SDG&E's exposure to wildfire risk, a key ESG risk consideration and an important driver of the organization's improved credit quality.

On July 26, Fitch upgraded Dominion Energy South Carolina to A- from BBB+. Fitch cited financial improvements that have occurred since Dominion Energy acquired the subsidiary in January 2019, including equity contributions, debt reductions and a recent favorable rate case outcome.

On December 23, Fitch upgraded AEP subsidiary Indiana Michigan Power Company to A- from BBB+ due to strong credit metrics and supportive regulation, including a resolution with the Indiana Utility Regulatory Commission regarding a lease termination for the utility subsidiary's Rockport power plant.

Merger activity resulted in a rating increase on January 4 when Moody's upgraded Gulf Power, a NextEra Energy subsidiary, to A1 from A2, reflecting Gulf Power's January 1, 2021 merger with affiliate Florida Power & Light Company (FPL). FPL, which has an A1 rating and stable outlook, assumed all of Gulf Power's outstanding debt obligations. Gulf Power was initially acquired by NextEra Energy in January 2019.

Weaker Metrics, Regulatory Outcomes Drive Downgrades

Weaker credit metrics were cited in the majority of 2021's downgrades. Among the underlying drivers, adverse regulatory outcomes were the most common followed by planned and/or potential divestitures of subsidiaries or business units.

On January 26, Moody's downgraded Orange & Rockland Utilities (O&R), a subsidiary of Consolidated Edison, to Baa2 from Baa1 due to a weakened financial profile and higher political and regulatory risk in New York, its primary service territory. Moody's said O&R's weakening financial profile comes at the same time that political and regulatory risks are rising. Given rising business risk and a projected cash flow to debt ratio expected to be around 15% for a sustained period, Moody's noted O&R's credit profile is better aligned with Baa2-rated peers.

On January 26, S&P lowered the rating for seven Duke Energy subsidiaries as a result of Duke's coal ash settlement, all falling to BBB+ from A-. S&P's outlook for Duke Energy and its subsidiaries is stable. On March 26, Moody's lowered its ratings for Duke Energy (to Baa2 from Baa1) and Duke Energy Carolinas (to A2 from A1), citing weaker financial metrics and the coal ash settlement agreement.

On February 25, Exelon Generation was downgraded by S&P to BBB- from BBB due to its planned spinoff by parent Exelon. The rating agency now considers Exelon Generation as nonstrategic to Exelon with resulting heightened business risk. S&P also noted that Exelon Generation's business risk profile has weakened due to declining costs for renewable power along with the advancement of energy storage technologies.

On April 8, Fitch lowered its rating for AEP Texas (AEPTX), a subsidiary of American Electric Power, to BBB from BBB+. The downgrade reflects weaker credit measures from a lower equity capitalization, lower than expected parent capital contributions, high capex, and regulatory lag associated with a fast-growing service territory.

On April 28, S&P downgraded Kentucky Power Co. (KPCo), a subsidiary of American Electric Power, to BBB+ from A-, following the parent company's announcement that it had launched a process to sell KPCo. AEP views this potential sale as a means to finance robust renewable energy investment over the next decade.

On July 20, Moody's downgraded AVANGRID's parent company rating to Baa2 from Baa1 and its subsidiaries New York State Electric & Gas (NYSEG) and Rochester Gas & Electric (RG&E) to Baa1 from A3. The downgrade of AVANGRID reflects weaker financial ratios, a higher-risk capital program through 2025, and heightened political influence and uncertainty in utility rate making in the company's two largest regulatory environments, New York and Connecticut. The downgrades of NYSEG and RG&E reflect the financial implications of their combined three-year rate plan in addition to heightened risk of political intervention in New York state's utility regulatory process.

In September, two Entergy subsidiaries were downgraded by S&P in the aftermath of Hurricane Ida. On September 2, Entergy Louisiana (ELL) was lowered to BBB+ from A- due to the severity of storm activity in its Gulf Coast service territory, which eroded its business risk profile relative to peers rated A-. After factoring in the impact of Hurricane Ida, S&P expects ELL's financial measures to weaken but remain largely credit supportive. On September 24, S&P downgraded Entergy New Orleans (ENO) to BB from BB+ based on parent company Entergy's announcement of a variety of options for ENO's future, including a sale, spinoff, or municipalization of the utility.

On October 8, Moody's downgraded Public Service Electric and Gas to A3 from A2, reflecting the agency's concern that cash flow metrics will weaken as the utility implements its robust capital investment program.

On October 12, Fitch downgraded Pinnacle West Capital (PNW) and subsidiary Arizona Public Service (APS) to BBB+ from A- in anticipation of an adverse final order in APS's pending general rate case, which Fitch said could degrade credit metrics and elevate business risk. On November 17, Moody's lowered PNW's rating to Baa1 from A3 and APS's rating to A3 from A2; both moves were based on the Arizona Corporate Commission's final order that included a lower authorized ROE.

Ratings by Company Category

Table V presents the distribution of credit ratings over time by company category (Regulated, Mostly Regulated and Diversified) for the investor-owned electric utilities. The Diversified category was eliminated in 2017 due to its dwindling number of companies. Ratings are based on S&P's long-term issuer ratings at the holding company level, with only one rating assigned per company. At December 31, 2021, the average rating for both the Regulated and Mostly Regulated categories was BBB+.

Rating Agency Credit Outlooks

The three major ratings agencies held somewhat divergent utility industry credit outlooks as 2022 began. S&P maintained a negative outlook, Moody's outlook remained stable and Fitch retained its neutral outlook. The agencies cited the regulatory environment, rising costs and related customer bill impacts, elevated capital expenditures, success managing the clean energy transformation, and stability of financial metrics as key themes they are watching. It should be noted that the groups of underlying companies vary slightly across the three rating agency outlooks.

Standard & Poors (S&P)

Published in late January 2022, S&P's report "Industry Top Trends 2022 – North America Regulated Utilities" maintained the agency's negative industry outlook. The report noted that downgrades outpaced upgrades in 2021 and in 2020, and many utilities continue to operate with minimal financial cushion above downgrade thresholds. Given that 20% of the industry has a negative outlook versus about 5% with a positive outlook, the agency said downgrades will likely outpace upgrades again in 2022.

The report cited the size of the clean energy transformation and management of regulatory risk as other key concerns. Acknowledging the industry's ongoing success at reducing greenhouse gas (GHG) emissions, the agency said pressure to accelerate that pace could lead to unintended consequences, such as operational issues from over-reliance on intermittent power, which might weaken financial measures and credit quality. The S&P report noted many utilities delayed rate case filings during the pandemic or received rate orders that were lower than expected. While the pace of rate case filings has subsequently increased, the agency said effective management of regulatory relations remains a risk. Moreover, rising interest rates, general price inflation, and higher commodity fuel prices could increase customer bills and contribute to a more challenging regulatory environment.

While limiting excess credit capacity and maintaining thin downgrade cushions works well under favorable conditions, the report said utilities risk a weakening of credit quality if unexpected risks materialize or base case assumptions deviate from expectations.

Moody's

In its "Outlook – Regulated Electric and Gas Utilities - US" (released November 2021), Moody's maintained its stable outlook. The report said the regulatory environment will likely remain supportive for rate base growth, infrastructure investment, and efforts to protect networks from extreme weather events, and that utilities will benefit from continuing U.S. economic growth. The report projects average aggregate rate base growth of about 6% in 2022. The sector's aggregate industry funds from operations (FFO) to debt ratio will range between 14% and 15% in 2022 according to the report; this is consistent with Moody's projections last year for 2021.

Moody's listed several factors that could change its outlook to positive: 1) if regulation turns more credit supportive, 2) if there is additional legislative support for certainty and visibility of cost recovery, and 3) if the sector's consolidated FFO-to-debt ratio rises to around 18% on a sustainable basis. Factors that could change its outlook to negative were: 1) a widespread and sustained decline in regulatory support for timely cost recovery, 2) a less favorable capital market environment, and 3) if availability of bank credit facilities becomes constrained. Moody's could also change its outlook to negative if aggregate FFO-to-debt appears likely to dip below 14% during 2022 and beyond, which could result from higher leverage, a slower-than-expected U.S. recovery, material load declines, high or unrecoverable bad debt expenses or the postponement of needed rate increases.

Fitch Ratings

In its "2022 Outlook: North American Utilities, Power & Gas" (released December 2021), Fitch Ratings maintained a neutral outlook for the North American utilities, power and gas sector.

Fitch believes state regulatory environments will remain broadly constructive and retail electricity sales will continue to gain strength as commercial and industrial sales reach and/or exceed pre-pandemic levels. Fitch expects overall retail electricity sales to increase between 0.5% and 1.0% in 2022, however it cited the late-2021 increase in natural gas prices as a near-term concern since fuel and purchased power costs are passed through to customers. The report said that, based on natural gas futures prices in December 2021, customer rates may experience a high-single to low-double digit percent increase over the next one to two years and current winter heating bills may rise 30% versus last year. In addition, elevated capex, recovery of storm restoration costs, and recovery of deferred coronavirus-related expenses may compound any pressure on customer bills.

Fitch noted weather-driven outages are on the increase and regulatory/political scrutiny is forcing utilities to explore further storm-hardening responses, such as undergrounding electric lines, that may require further grid-hardening investment. While broadly supported by regulators, higher capex is also resulting from rising investments in solar, onshore and offshore wind, and battery storage projects. The report noted declining O&M expenses from cost control initiatives as well as the ongoing transition to lower cost renewables should provide some offset to customer impacts.

With more than 80% of company ratings at a stable outlook, Fitch expects limited rating movement in 2022. The number of downgrades from Fitch declined in 2021 after elevated levels in the preceding three years.■