Q3 2024

Credit Ratings

HIGHLIGHTS

- The industry's average parent company credit rating throughout 2024's first nine months held at BBB+, its level since 2014.
- Ratings activity remained slow. There were only 36 total actions (20 upgrades, 16 downgrades). On September 30, 73% of parent company outlooks were "stable" and 7% were "positive" or "watch-positive". Only 20% were "negative" or "watch-negative".
- S&P accounted for the majority of 2024's 36 actions with 15 upgrades and 11 downgrades, Fitch produced three (three downgrades) and Moody's seven (five upgrades, two downgrades).
- Upgrades cited reduced wildfire risk, lower financial leverage, diminished business risk, and less nuclear construction risk as key drivers for improved credit metrics.
- Downgrades were linked to challenges associated with offshore wind developments, wildfire risk, and pressure on credit metrics from higher capital expenditures.

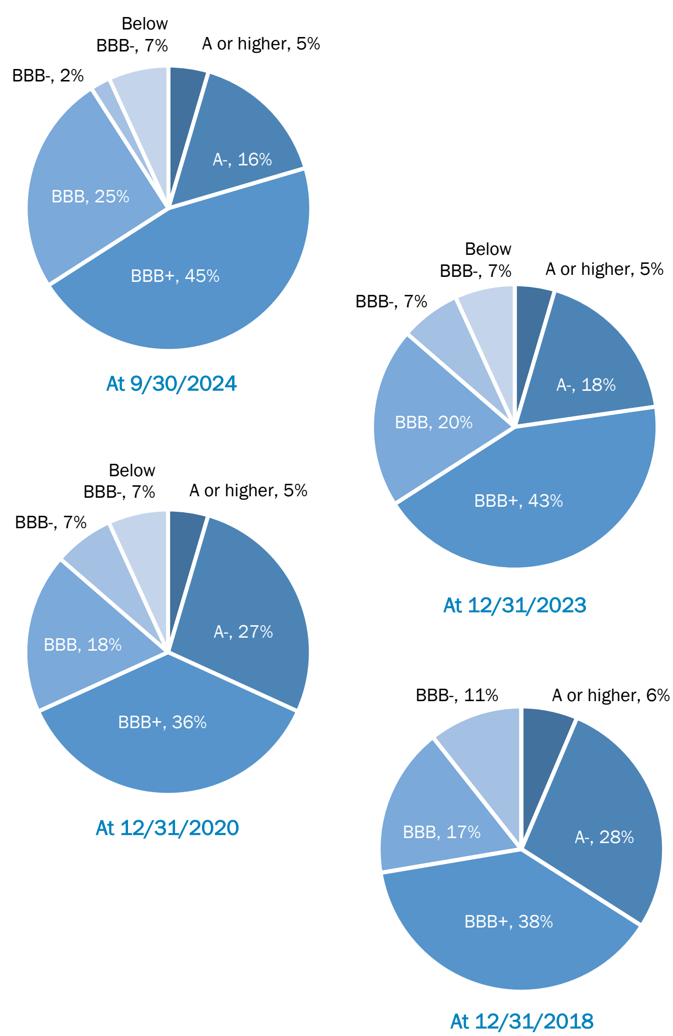
COMMENTARY

The industry's average parent company credit rating remained at BBB+ throughout the first nine months of 2024, a level it has held since 2014. Four parent-level upgrades versus two downgrades caused a slight improvement in aggregate holding company credit quality. There were only 36 total actions — 20 upgrades and 16 downgrades — affecting both parents and subsidiaries. This compares to 29 total actions — 14 upgrades and 15 downgrades — during the first nine months of 2023. The industry has averaged 65 actions annually over the last decade.

On September 30, 2024, 73% of parent company ratings

I. S&P Utility Credit Ratings Distribution

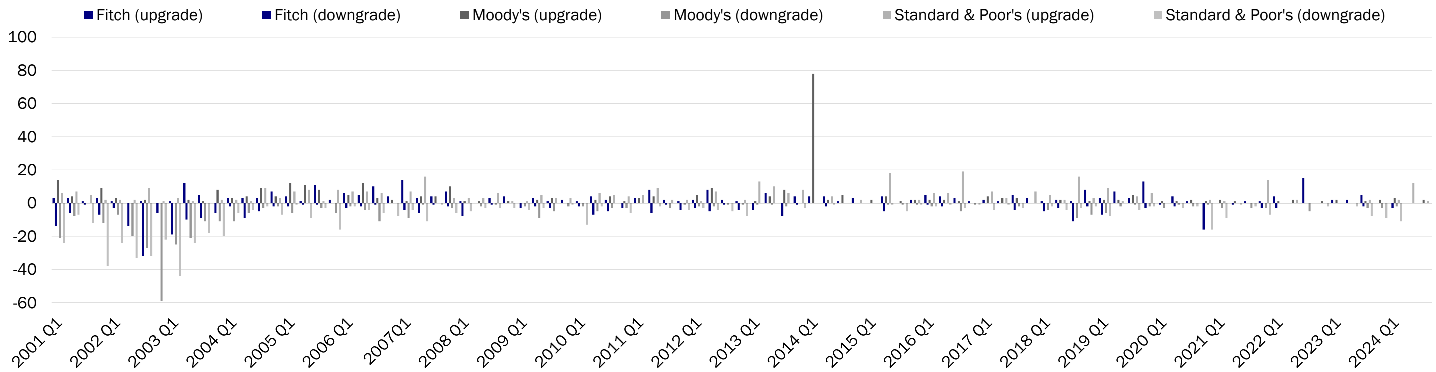
U.S. Investor-Owned Electric Utilities (parent level only)



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)



	2020				2021				2022				2023				2024		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fitch (upgrade)	0	4	1	0	0	0	1	1	4	0	15	0	2	2	5	0	0	0	0
Fitch (downgrade)	-1	-2	0	-16	0	-1	0	-3	-3	0	0	0	0	0	-2	0	-3	0	0
Moody’s (upgrade)	1	1	2	1	2	1	0	0	1	2	0	1	2	0	1	2	3	0	2
Moody’s (downgrade)	-3	-1	-2	-1	-3	0	-3	-3	0	0	-5	0	0	0	-3	-3	-2	0	0
S&P (upgrade)	0	0	0	2	1	0	0	14	0	2	0	0	0	0	2	0	2	12	1
S&P (downgrade)	0	-3	-2	-16	-9	-1	-2	-7	0	0	0	-2	0	-2	-8	-9	-11	0	0

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)

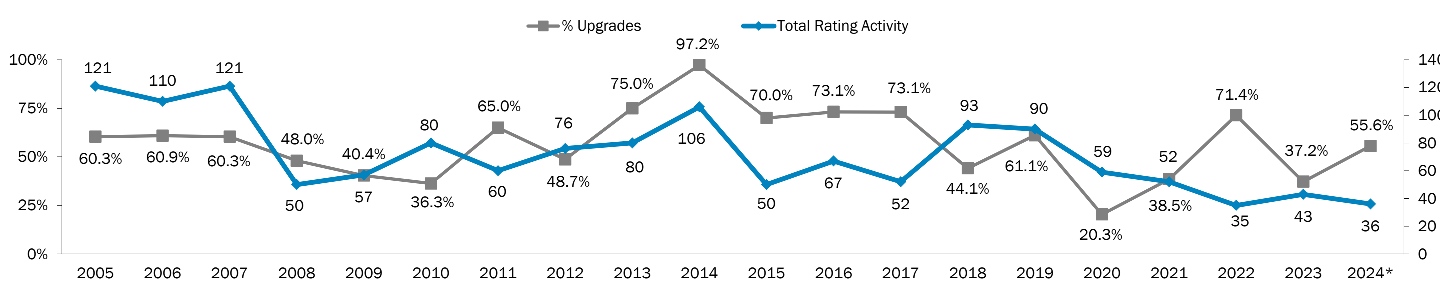
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Fitch	31	41	17	14	24	25	26	23	14	11	16	15	33	36	24	6	22	11	3
Moody’s	39	32	6	23	20	11	20	17	85	12	13	12	23	20	12	12	9	11	7
S&P	40	48	27	20	36	24	30	40	7	27	38	25	37	34	23	34	4	21	26
Total	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52	35	43	36

Source: S&P Global Market Intelligence and EEI Finance Dept.
*Through September 30.

IV. Direction of Ratings Actions

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
Upgrades	73	67	73	24	23	29	39	37	60	103	35	49	38	41	55	12	20	25	16	20
Downgrades	48	43	48	26	34	51	21	39	20	3	15	18	14	52	35	47	32	10	27	16
% Upgrades	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	71.4	37.2	55.6
Total Actions	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52	35	43	36



Source: Fitch Ratings, Moody’s, Standard & Poor’s outlooks were "stable" and 7% were "positive" or "watch-positive". Only 20% of outlooks were "negative" or "watch-negative"; this is a slight increase over 16% at year-end 2023.

Electric utility industry credit quality has generally improved over the past decade. The industry's average parent-level rating has held at BBB+ since increasing from BBB in 2014. Parent-level upgrades have outnumbered downgrades in six of the past ten calendar years with an annual average upgrade percentage of 59% 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 on September 30, 2024 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.

S&P Actions at Parent Level

S&P Global's parent-level ratings actions (that determine the industry's average rating and outlook) during the first nine months of 2024 included two downgrades and four upgrades. By comparison, there were two downgrades in 2023, one downgrade and no upgrades in 2022 , and three downgrades and one upgrade in 2021.

On February 23, S&P Global Ratings upgraded PG&E Corporation (PCG) to BB from BB-. Subsidiary Pacific Gas & Electric was also upgraded to BB from BB-. S&P cited successful implementation of ongoing wildfire mitigation efforts for the upgrade. Initiatives such as public safety power shutoffs, enhanced vegetation management, and underground distribution lines have decreased the likelihood of wildfire in PG&E's service territory.

On March 4, S&P Global Ratings downgraded American Electric Power Co. (AEP) and most subsidiaries to BBB+ from A-. Subsidiaries AEP Texas, Appalachian Power, Indiana Michigan Power, Ohio Power, Public Service Company of Oklahoma, Southwestern Electric Power, and AEP Transmission Company were downgraded by one notch. The downgrades resulted from concern that AEP's financial measures will be pressured by higher capital spending relative to historical levels. The agency noted that the company's funds from operations to debt ratio will be in the 12%-15% range through 2026, below the downgrade threshold for its previous rating.

On March 13, S&P Global Ratings downgraded Xcel Energy (XEL) to BBB+ from A-. S&P also lowered the ratings of subsidiaries Southwestern Public Service (BBB from A-) and Northern States Power (A- from A). S&P cited greater than previously anticipated wildfire risk, driven by developments related to the Smokehouse Creek fire in the Texas panhandle. The downgrade reflects an expectation that climate change could make wildfires in Xcel's service territories more frequent and severe. Xcel's growing exposure to wildfire risk may also require increased investments in advanced technologies and system hardening.

On April 23, S&P Global Ratings upgraded FirstEnergy Corporation (FE) to BBB from BBB-. Subsidiaries FirstEnergy Pennsylvania Electric, Ohio Edison, and Toledo Edison were upgraded to BBB+ from BBB, while subsidiary FirstEnergy Transmission (FET) was upgraded to BBB from BBB-. S&P stated that the sale of a 30% minority interest in FirstEnergy Transmission to Brookfield Infrastructure Partners for $3.5 billion will likely drive an improvement in FirstEnergy's credit metrics. S&P expects FirstEnergy's funds from operations to debt ratio to rise consistently above 12% after the sale.

On May 2, S&P Global Ratings upgraded Southern Company (SO) to A- from BBB+, observing that subsidiary Georgia Power had recently placed nuclear plant Vogtle Unit 4 in service. S&P also raised the ratings of subsidiaries Alabama Power (A from A-), Georgia Power (A from BBB+), Mississippi Power (A- from BBB+), and Southern Power (BBB+ from BBB). The upgrades reflect decreased construction risk given completion of Vogtle Unit 4, and an expectation that consolidated financial measures will continue to improve after the plant's completion.

On June 7, S&P Global Ratings upgraded Cleco Corporate Holdings to BBB from BBB-. Subsidiary Cleco Power was upgraded to A- from BBB+. On June 4, Cleco announced the completion of the sale of subsidiary Cleco Cajun to affiliates of Atlas Capital Resources for $600 million. Cleco Cajun was Cleco's non-utility generation business. According to S&P, Cleco is now a low-risk fully regulated utility, warranting a revision of the company's business risk profile to excellent from satisfactory. Cleco will most likely use the sale proceeds to reduce debt.

Ratings Activity Remains Slow

With only 36 rating actions during the first nine months of the year, 2024 is on track to be one of the quietest years for ratings activity since our dataset's inception in 2000. By comparison, there were 43 actions in full-year 2023, 35 actions in 2022, 52 actions in 2021, and an annual average of 65 over the last decade.

The 20 upgrades and 16 downgrades through Q3 2024 resulted in a 56% upgrade percentage, up from 48% during the first nine months of 2023.

Table II, Credit Rating Agency Upgrades and Down-grades, presents quarterly activity by all three ratings agencies since 2001.

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

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

	12/31/2019		12/31/2020		12/31/2021		12/31/2022		12/31/2023		9/30/2024	
REGULATED												
A or higher	1	3%	1	3%	1	3%	1	3%	1	3%	1	3%
A-	11	31%	11	32%	8	23%	8	22%	7	18%	6	16%
BBB+	11	31%	10	29%	14	40%	15	42%	18	47%	19	51%
BBB	8	23%	7	21%	7	20%	7	19%	7	18%	8	22%
BBB-	2	6%	2	6%	3	9%	3	8%	3	8%	1	3%
Below BBB-	2	6%	3	9%	2	6%	2	6%	2	5%	2	5%
Total	35	100%	34	100%	35	100%	36	100%	38	100%	37	100%
MOSTLY REGULATED												
A or higher	1	10%	1	10%	1	11%	1	13%	1	17%	1	14%
A-	1	10%	1	10%	1	11%	1	13%	1	17%	1	14%
BBB+	7	70%	6	60%	5	56%	4	50%	1	17%	1	14%
BBB	0	0%	1	10%	1	11%	1	13%	2	33%	3	43%
BBB-	1	10%	1	10%	1	11%	1	13%	0	0%	0	0%
Below BBB-	0	0%	0	0%	0	0%	0	0%	1	17%	1	14%
Total	10	100%	10	100%	9	100%	8	100%	6	100%	7	100%

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

S&P accounted for the majority of 2024's 36 actions with 15 upgrades and 11 downgrades, Fitch produced three (three downgrades) and Moody's seven (five upgrades, two downgrades).

Other Upgrades in 2024

In addition to S&P's parent-level actions, the other upgrades in 2024 (that contribute to upgrade totals) cited reduced wildfire risk, less financial leverage, and less nuclear construction risk as key drivers for improved credit metrics.

On February 20, Moody's upgraded PG&E Corporation (PCG) to Ba1 from Ba2 and upgraded subsidiary Pacific Gas & Electric to Baa2 from Baa3. Moody's stated that the upgrade reflects significant investments to mitigate wildfire risk, an improved relationship with key stakeholders, and an overall stronger financial profile. Access to California's wildfire insurance fund and the supportive provisions contained in California's AB1054 legislation were also important. PG&E has invested $20 billion in wildfire mitigation since its emergence from bankruptcy in 2020, and this has helped reduce the risk that PG&E's infrastructure will be the source ignition of a wildfire.

On March 28, Moody's upgraded FirstEnergy Corporation (FE) to Baa3 from Ba1. The move followed the completion of FirstEnergy's sale of an equity stake in subsidiary FirstEnergy Transmission (FET) for approximately $3.5 billion. A large portion of the sale proceeds will be used to improve FirstEnergy's balance sheet. Moody's expects FirstEnergy's credit metrics to improve, with its cash flow from operations (before changes in working capital) to debt ratio increasing from 9% at the end of 2023 to 14%. Over the last three years, FirstEnergy has raised $7 billion of equity and used the proceeds both to improve its balance sheet and to fund rate base growth.

On July 22, S&P Global Ratings upgraded FirstEnergy (FE) subsidiary FirstEnergy Transmission (FET) to A- from BBB. The upgrade was driven by a review of the revised separateness and structural insulating measures between FET and parent FE after the sale of a minority interest to Brookfield Infrastructure Partners in March. S&P expects that FET will maintain a stand-alone funds from operations to debt ratio consistently above 12%. S&P also noted that FET's operating companies are regulated by the FERC, which is viewed as highly supportive of credit quality.

On September 26, Moody's upgraded Southern Company (SO) to Baa1 from Baa2 and upgraded subsidiary Georgia Power to A3 from Baa1. The upgrades primarily reflected lower business risk following completion and successful operation of both the Vogtle 3 new nuclear unit (July 2023, 1,100 MW) and Vogtle 4 new nuclear unit (April 2024, 1,100 MW). Moody's also expects that Southern and Georgia Power's financial profiles will strengthen now that the nuclear construction project is over and cost recovery has begun. A December 2023 cost recovery agreement will allow Georgia Power to recover $7.562 billion in total construction and capital costs and resolved all matters related to reasonableness, prudence and cost recovery for Georgia Power's 45.7% ownership of the two new nuclear generating plants.

Other Downgrades in 2024

In addition to S&P's parent-level downgrades, the other downgrades in 2024 were linked to challenges associated with three offshore wind developments and credit metric pressures related to higher capital expenditures.

On January 11, Fitch downgraded Eversource (ES) to BBB from BBB+ and downgraded subsidiary NSTAR Electric to A- from A. Fitch cited continuing uncertainty around the sale of Eversource's 50% interest in three offshore wind projects under development. Danish wind energy developer Orsted owns the other 50% share in all three projects. The wind projects faced challenges related to supply issues, increasing costs and power price adjustments. Sale proceeds were expected to be a key source of cash for parent level debt reduction. Fitch noted that pressure on the sale price could drive a greater reliance on equity issuance for debt reduction.

On March 20, Moody's downgraded Pinnacle West (PNW) to Baa2 from Baa1 and downgraded subsidiary Arizona Public Service to Baa1 from A3. Moody's stated that the downgrade of the parent company reflected the downgrade of its key utility subsidiary, APS. The agency noted that nearly 100% of Pinnacle's cash flow is generated by the utility. Moody's expects the financial profile of Arizona Public Service to be pressured by higher capital expenditures and increased regulatory lag because of the historic test year framework in Arizona.

On March 26, Fitch downgraded Pinnacle West (PNW) to BBB from BBB+. The downgrade reflects Fitch's expectations for high leverage through the 2024-2026 forecast period, partially due to increased capital expenditures focused on new generation and distribution investments. Fitch expects APS to spend approximately $10 billion in total capex during 2024-2028 with total capex approximately 35% higher than the preceding five-year period. The investments are needed to support a growing economy in the APS service territory.

Ratings by Company Category

The S&P Utility Credit Ratings Distribution by Company Category table presents the distribution of credit ratings over time by company category (Regulated and Mostly Regulated) for the investor-owned electric utilities. The formerly tracked 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. On September 30, 2024, the average rating for the Regulated category was BBB+ and the average rating for the Mostly Regulated category was BBB.■

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