Industry Top Trends Update

Regulated Utilities

Credit quality has weakened and credit risks are rising

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What's changed?

The industry's median rating fell to 'BBB+' from 'A-' and the industry's outlook remains negative. 2022 is on track to be the third consecutive year for downgrades to outpace upgrades.

2021 capital spending was at an all-time high of more than $165 billion and we expect it grow to more than $200 billion by 2023.

State regulators approved record levels of securitization issuances to recover costs associated with physical disasters. We view securitization as supportive of credit quality and expect about $15 billion of securitization to be issued in 2022.

What to look out for?

Weak financial measures. About half of the industry is operating with minimal financial cushion, with less than 100 basis points of cushion from their funds from operations-to-debt downgrade threshold.

Customer bills are becoming less affordable as a result of rising commodity prices, interest rates, inflation, and capital spending.

Rising environmental risks. The increasing frequency of physical risks raises costs and risks for the industry. While the industry has decreased its greenhouse gas emissions by more than 30%, we expect it will still require decades for the industry to reach net zero.

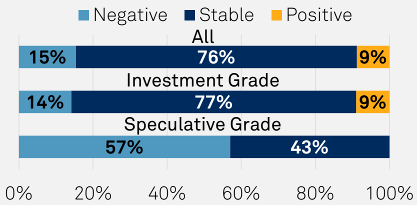
What if there's a recession?

Consistent access to the capital markets could become more challenging. The industry annually operates with more than $100 billion of negative discretionary cash flow. To finance this large deficit, the industry requires consistent access to the capital markets. Rising interest rates, decreasing equity prices, and inflation could obstruct access the capital markets, potentially pressuring credit quality.

Management of regulatory risk could weaken. Rising customer bills could challenge the industry's ability to consistently pass costs to ratepayers, pressuring the industry's ability to effectively manage regulatory risk.

Net-zero goals could be delayed. As customer bill pressure increases, the industry may be forced to slow the pace of energy transition, delaying the timeframe to reach net zero greenhouse gas emission.

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	272	7	279
Downgrades	4	1	5
Upgrades	2	0	2

Ratings data as of end-June 2022. * Year-to-date

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- For The First Time Ever, The Median Investor-Owned Utility Ratings Falls To The 'BBB' Category, January 20, 2022