S&P Global Ratings

Regulated Utilities

Credit risks are rising

This report does not constitute a rating action.

Gabe Grosberg
New York
gabe.grosberg@
spglobal.com
+1 212 438 6043

What's changed?

Industry outlook. In February we revised our industry outlook to negative, reflecting the industry's high percentage of companies with negative outlooks and that operate with only minimal financial cushion from their downgrade threshold; record-breaking capital spending that is leading to high cash flow deficits, which are not sufficiently funded in a credit-supportive manner; and rising wildfire risks.

Growth. Following nearly two decades of flat to negative electricity sales because of conservation, we expect the industry will likely grow at 1%-2% annually, primarily from data centers, the onshoring of manufacturing, and electric vehicles. We assess this development as supportive of credit quality, allowing the industry to spread its fixed costs across a wider base.

Hybrid security issuance at about $12 billion this year is on pace to set a record. We assess hybrids as supporting the industry's financial performance by funding a portion of its large cash flow deficits in a more credit-supportive manner than senior debt.

What to look out for?

Management of regulatory risk. The industry has filed more than 130 rate cases, requesting revenue increases of more than $22 billion to recover its record-breaking $200 billion in annual capital spending.

Wildfire mitigation plans. We expect the industry will implement plans that significantly reduce the likelihood of a utility causing/contributing to a wildfire and that allow for the recovery of wildfire costs should the utility be obligated to pay them. Recent legislation in Utah that addressed liability caps and a wildfire fund is supportive of credit quality.

Downgrades again outpacing upgrades modestly. However, given that more than a quarter of the industry has a negative outlook and that about 35% of the industry operates with only minimal financial cushion from their downgrade threshold, 2024 will likely be the fifth consecutive year that the industry's downgrades outpace upgrades.

What are the key risks around the baseline?

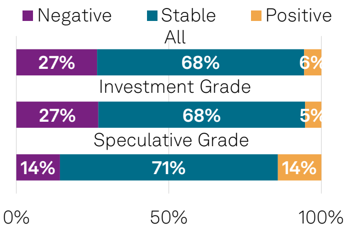
Wildfires. Utilities operating in Alberta, Arizona, California, Colorado, Florida, Idaho, Nevada, New Mexico, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming are all experiencing increasing wildfire risks, raising the industry's credit risks.

Insurance. The industry's wildfire insurance availability and rising costs have forced some California utilities to move to a self-insurance model. We asses this trend as negative for the industry's credit quality.

Common equity. To date, common equity issuance has only been at about $1 billion, a level likely to be insufficient to the fund the industry's cash flow deficits ($80 billion-$100 billion) in a credit supportive manner.

Rating Trends

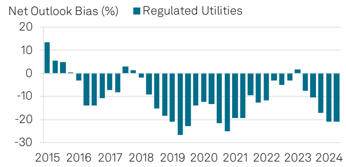
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	227	7	234
Downgrades	18	0	18
Upgrades	17	2	19

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	7.3	3.3
EBITDA growth (Y/Y%)	9.6	2.6
EBITDA margin (%)	35.9	26.4
Capex growth (Y/Y%)	9.5	11.6
Debt/EBITDA (x)	4.5	5.7
FFO/Debt (%)	17.2	12.5
FOCF/Debt (%)	-4.0	-5.1

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Will The Issuance Of Hybrid Securities Protect The Credit Quality Of North American Investor-Owner Regulated Utilities?, July 1, 2024

North American Utility Regulatory Jurisdictions Update: Ontario Remains Unchanged, March 11, 2024

Rising Risks: Outlook For North American Investor-Owned Regulated Utilities Weakens, Feb. 14, 2024