Edison Electric
INSTITUTE

Credit Ratings

Q4 2020
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 7-9, 2021
Diplomat Resort & Spa
Hollywood, Florida

For more information about future EEI Finance Meetings, please contact Devin James at (202) 508-5057 or djames@eei.org, or 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 12/31/2019)

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 financial trends and the capital markets' response to business strategies as companies depart from the traditional regulated utility model.

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 (34 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.
Southern Company
Unitil Corporation
WEC Energy Group, Inc.
Xcel Energy Inc.

Mostly Regulated (10 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
Sempra Energy

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 2020

Credit Ratings

HIGHLIGHTS

- The average parent company credit rating in 2020 was BBB+, a level that has held since 2014. Following two very active years, 2020's 59 actions was well below the 73-action annual average of the previous ten calendar years.
- The industry's credit quality has generally improved over the past decade. Parent-level credit strengthened and upgrades outnumbered downgrades in seven of the past ten calendar years, with an annual average upgrade percentage of 62.8%. The five-year period 2013 through 2017 produced the five-highest upgrade percentages in our historical data (back to 2000).
- All three ratings agencies noted that regulated utilities managed the COVID-19 pandemic well. Its impact was referenced in individual company downgrades only as an additional factor that could exacerbate an existing trend.
- On December 31, 59.1% of parent company ratings outlooks were "stable", 6.8% were "positive" or "watch-positive", and 2.3% were "developing". A relatively high 31.8% were "negative" or "watch-negative", up from 18.2% at year-end 2019 and 23.4% at year-end 2018.

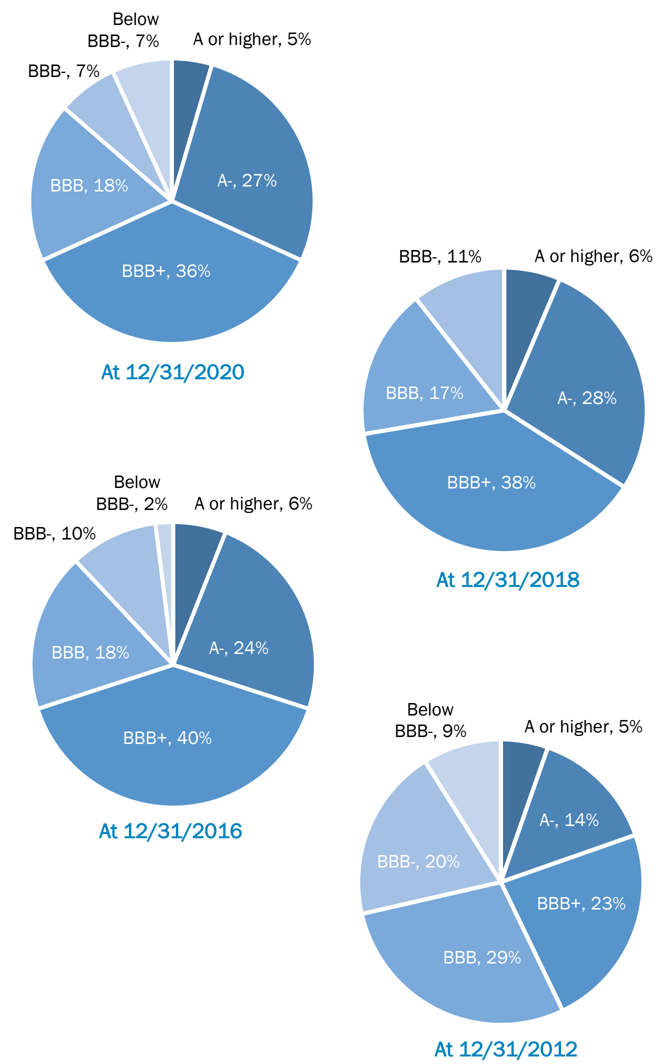
COMMENTARY

The industry's average parent company credit rating in 2020 remained at BBB+ for a seventh straight year, although three parent-level downgrades outnumbered one upgrade and caused a slight underlying weakening in general holding company credit quality. There were only 59 total actions — 12 upgrades and 47 downgrades — affecting both parents and subsidiaries. This pace was below the 73-action annual average of the previous ten calendar years and the fourth-lowest annual total in our historical dataset (back to 2000).

On December 31, 2020, 59.1% of parent company rat-

I. S&P Utility Credit Ratings Distribution

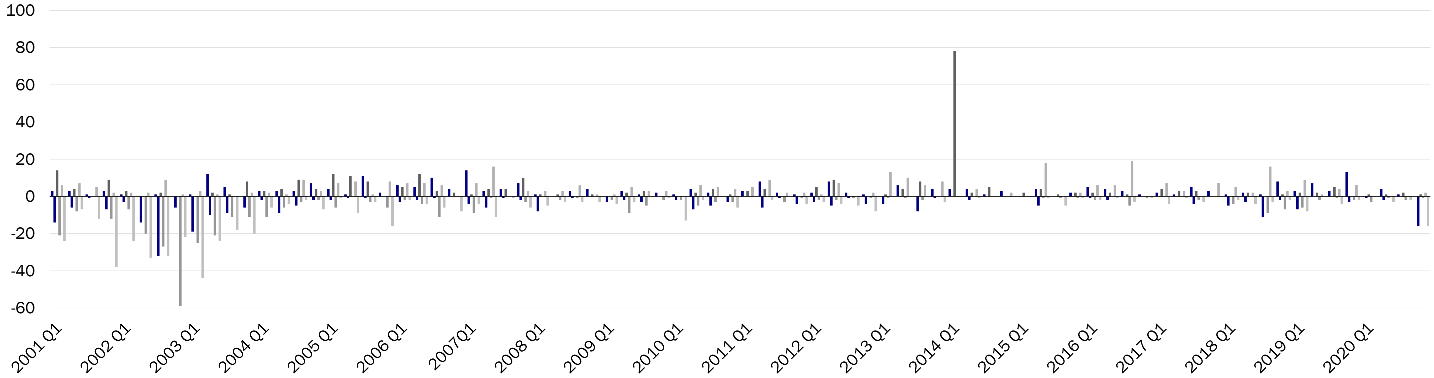
U.S. Investor-Owned Electric Utilities (parent level only)



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)



	2015				2016				2017				2018				2019				2020			
	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)	0	4	0	2	5	4	3	1	2	1	5	3	1	2	1	8	3	7	3	13	0	4	1	0
Fitch (downgrade)	0	-5	0	0	-1	-2	0	0	0	0	-4	0	-5	-3	-11	-2	-7	0	0	-3	-1	-2	0	-16
Moody's (upgrade)	2	4	1	2	2	2	1	0	4	3	3	0	0	2	0	1	2	2	5	0	1	1	2	1
Moody's (downgrade)	0	-1	-1	-1	-2	0	-5	-1	0	0	-2	0	-4	0	-9	-7	-6	-2	-1	-2	-3	-1	-2	-1
S&P (upgrade)	0	18	0	2	6	6	19	0	7	3	0	7	5	2	16	3	9	1	4	6	0	0	0	2
S&P (downgrade)	0	-1	-5	-1	-2	-1	-3	-1	-4	-1	-3	0	-2	-4	-3	-2	-8	0	-4	-2	0	-3	-2	-16

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)

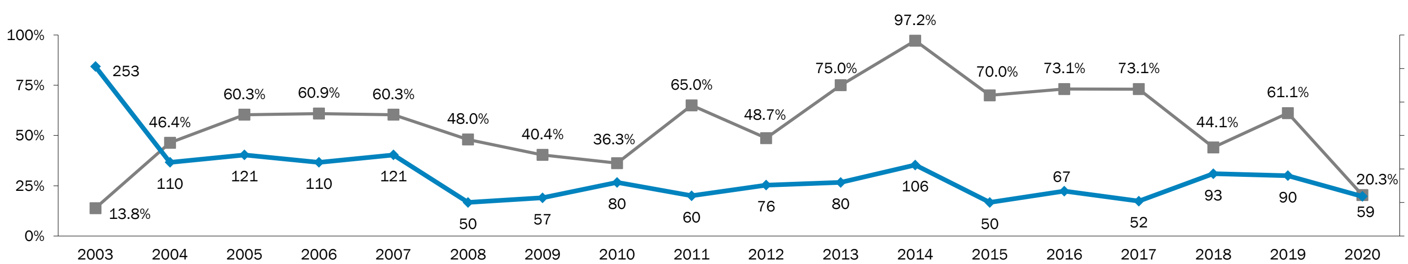
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fitch	62	34	22	31	41	17	14	24	25	26	23	14	11	16	15	33	36	24
Moody’s	79	42	46	39	32	6	23	20	11	20	17	85	12	13	12	23	20	12
S&P	112	34	53	40	48	27	20	36	24	30	40	7	27	38	25	37	34	23
Total	253	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59

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
Upgrades	35	51	73	67	73	24	23	29	39	37	60	103	35	49	38	41	55	12
Downgrades	218	59	48	43	48	26	34	51	21	39	20	3	15	18	14	52	35	47
% 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%
Total Actions	253	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59



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)

	12/31/2013		12/31/2014		12/31/2015		12/31/2016		12/31/2017		12/31/2018		12/31/2019		12/31/2020	
REGULATED																
A or higher	1	3%	1	3%	1	3%	2	6%	2	6%	1	3%	1	3%	1	3%
A-	7	20%	8	21%	8	22%	10	28%	12	34%	11	32%	11	31%	11	32%
BBB+	6	17%	12	32%	12	33%	13	36%	10	29%	11	32%	11	31%	10	29%
BBB	17	49%	14	37%	12	33%	8	22%	7	20%	7	21%	8	23%	7	21%
BBB-	2	6%	1	3%	1	3%	3	8%	4	11%	4	12%	2	6%	2	6%
Below BBB-	2	6%	2	5%	2	6%	0	0%	0	0%	0	0%	2	6%	3	9%
Total	35	100%	38	100%	36	100%	36	100%	35	100%	34	100%	35	100%	34	100%
MOSTLY REGULATED																
A or higher	1	6%	1	8%	1	8%	1	8%	1	7%	2	15%	1	10%	1	10%
A-	5	29%	4	31%	5	38%	2	17%	2	14%	2	15%	1	10%	1	10%
BBB+	5	29%	4	31%	5	38%	7	58%	7	50%	7	54%	7	70%	6	60%
BBB	3	18%	2	15%	1	8%	0	0%	2	14%	1	8%	0	0%	1	10%
BBB-	3	18%	2	15%	1	8%	1	8%	1	7%	1	8%	1	10%	1	10%
Below BBB-	0	0%	0	0%	0	0%	1	8%	1	7%	0	0%	0	0%	0	0%
Total	17	100%	13	100%	13	100%	12	100%	14	100%	13	100%	10	100%	10	100%
DIVERSIFIED																
A or higher	0	0%	0	0%	0	0%	0	0%								
A-	0	0%	0	0%	0	0%	0	0%								
BBB+	1	50%	1	50%	1	50%	0	0%								
BBB	0	0%	0	0%	0	0%	1	50%								
BBB-	0	0%	1	50%	1	50%	1	50%								
Below BBB-	1	50%	0	0%	0	0%	0	0%								
Total	2	100%	2	100%	2	100%	2	100%								

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

ings outlooks were "stable", 6.8% were "positive" or "watch-positive", and 2.3% were "developing". A relatively high 31.8% were "negative" or "watch-negative", up from 18.2% at year-end 2019 and 23.4% at year-end 2018. While the economic impact of COVID-19 initially caused Standard and Poor's (S&P) to revise its North American regulated utility industry outlook (including electric, gas and water) to negative from stable, Moody's and Fitch each maintained a stable outlook for their broad U.S. regulated utility sectors. At year end, all three agencies noted that regulated utilities managed the pandemic well.

Electric utility industry credit quality generally improved over the past decade. Aggregate parent-level credit strengthened in each year other than 2020, 2019 and 2012. And across EEI's larger universe of parents and subsidiaries, the five-year period 2013 through 2017 produced the five highest upgrade percentages in our historical data. Moreover, upgrades outnumbered downgrades in seven of the past ten calendar years with an annual average upgrade percentage of 62.8%.

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 within a parent holding company, including those at subsidiaries. Our universe of 44 U.S. parent company electric utilities at December 31, 2020 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.

Credit Actions at Parent Level

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

PNM Resources

On April 6, S&P lowered PNM Resources' parent-level rating to BBB from BBB+ due to weakened financial metrics. The agency noted PNM's funds from operations to debt ratio was 15.8% in 2018 and 15.5% in 2019 and said the pandemic's revenue impact may further pressure the company's financials. S&P's stable outlook is based in part on a belief that PNM can securitize costs related to closing its San Juan coal-fired power plant.

ALLETE
On April 22, S&P downgraded ALLETE to BBB from BBB+ on deteriorating credit metrics that have pushed funds from operations to debt below 20%. The company's credit metrics were expected to continue to be pressured by weakened economic conditions related to COVID-19 and an elevated capital spending plan. S&P's stable outlook reflects ALLETE's focus on regulated utility operations and a belief it can maintain funds from operations to debt at 18% to 20% for the next one to two years.

PG&E
S&P assigned a BB- rating to PG&E on June 15 as the company prepared to emerge from Chapter 11 bankruptcy. S&P's previous rating was D, which last appeared in our quarter-ending tracking on December 31, 2019. S&P did not have a rating assigned to PG&E at quarter-end March 31, 2020. On July 1, PG&E Corporation and subsidiary Pacific Gas & Electric Company emerged from Chapter 11, successfully completing a restructuring process.

FirstEnergy
During the fourth quarter, S&P downgraded FirstEnergy's issuer credit rating to BB from BBB following the termination of three executives, including the CEO. The terminations related to legal and other regulatory challenges the company is facing, with S&P citing concerns over internal controls. S&P also lowered the rating for thirteen of FirstEnergy's subsidiaries.

DPL
On November 3, S&P upgraded the issuer credit rating for DPL, Inc. to BB+ from BB based on an upgrade for its parent company, AES Corp., which reflected an improved financial risk profile. S&P noted that AES has de-risked its business portfolio by focusing on rate-based utilities and long-term contracted businesses while also narrowing its geographical scope to 13 countries from 29. S&P also upgraded DPL's principal subsidiary, Dayton Power and Light Co. (DP&L). The outlooks for both DPL and DP&L remain developing, reflecting potential for another upgrade in the coming months.

Ratings Activity Slows in 2020

The 59 rating changes during 2020 (upgrades plus downgrades) was the fourth-lowest total for any year back to our dataset's inception on January 1, 2000. By comparison, there were 90 actions in 2019 and an annual average of 73 over the last ten calendar years. The previous two calendar years were very active, ranking with 2014 as the most active of the last decade. As a result, the slowdown in 2020 is not surprising. Although COVID-19 was referenced in some of 2020's downgrades, it was cited only as a factor that could exacerbate existing trends. Its impact began only after much of the first quarter's actions had occurred and became secondary to other considerations as the year wore on.

The industry's 12 upgrades in 2020 were outnumbered by 47 downgrades, for an upgrade percentage of 20.3%, which made 2020 only the second year since 2013 with more downgrades than upgrades (see Table IV). In 2019, the industry's 55 upgrades outnumbered 35 downgrades for a 61.1% upgrade percentage, up from 44.1% in 2018. The five-year period 2013 through 2017 produced the five-highest upgrade percentages in our historical data. Upgrades outnumbered downgrades in seven of the past ten calendar years, with an annual average upgrade percentage of 62.8%.

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

Table III, Total Ratings Actions presents quarterly activity by all three ratings agencies. Following are full-year totals for 2020:

- Fitch (5 upgrades, 19 downgrades)
- Moody's (5 upgrades, 7 downgrades)
- Standard & Poor's (2 upgrades, 21 downgrades)

Merger Benefits Support Upgrades

Several of the year's upgrades were based on favorable impacts on subsidiaries from recently completed mergers. Four went to Dominion Energy subsidiaries acquired in January 2019 through Dominion's purchase of SCANA. On January 30, 2020, Moody's upgraded Dominion Energy South Carolina (DESC) to Baa2 from Baa3, citing an $875 million equity infusion received from its parent company, the retirement of approximately $1.0 billion of debt and a pending rate case proceeding. On May 29, Fitch upgraded DESC to BBB+ from BBB, Public Service Company of North Carolina (PSNC) to BBB+ from BBB, and SCANA to BBB from BBB-. Cited reasons for DESC's upgrade included resolution of legal and regulatory issues, an approved regulatory plan, an upcoming base rate case, the merger with Dominion Energy, improved credit metrics and a favorable service territory. Reasons cited for PSNC's upgrade included Dominion's ownership upon merger approval, a supportive regulatory environment, improving credit metrics, demand and capex growth, and limited commodity risk.

On April 13, Fitch upgraded NextEra Energy subsidiary Gulf Power to A from A-, reflecting better than expected financial performance driven by a reduction in operating expenses. In addition, NextEra injected $400 million of equity into Gulf Power in the first two months of 2020, which strengthened Gulf Power's capital structure. Specific key drivers that Fitch cited for the upgrade included Gulf Power's transformation (which includes the modernization of its generation fleet, lower operating costs and the creation of a transmission interconnection with FPL), benefits from integration with FPL, a limited impact from the coronavirus, a material jump in capex, constructive regulation and a general expectation that credit metrics will strengthen.

On May 27, Moody's upgraded Jersey Central Power & Light (JCP&L) to A3 from Baa1, projecting that JCP&L's improved financial profile will remain stable for the next two to three years as New Jersey's state regulatory environment remains supportive. Moody's expects JCP&L, a FirstEnergy subsidiary, to maintain its ratio of cash flow to debt in the low 20% range for a sustained period of time.

Mississippi Power, a Southern Company subsidiary, received upgrades from both Moody's and Fitch during Q3. On August 27, Moody's upgraded Mississippi Power to Baa1 from Baa2, reflecting an improved relationship with state regulators and a stronger financial profile. On September 25, S&P raised Mississippi Power's rating to BBB+ from BBB, citing a significant improvement in its regulatory construct.

Deteriorating Metrics, Regulatory Risk Drive Downgrades

Many of the year's downgrades point to actual or projected negative impacts on key credit metrics. Increased regulatory risk was cited as a primary underlying driver for several and one downgrade resulted from increased business risk from an acquisition. Although the impact of COVID-19 was frequently referenced in individual company downgrades, it was mentioned only as an additional factor that could exacerbate an existing trend.

On February 19, Fitch downgraded CenterPoint Energy Houston Electric (CEHE) to BBB+ from A- following CEHE's rate case settlement with the Public Utilities Commission of Texas. Fitch believes the settlement signals a more challenging regulatory environment in Texas for CEHE. On March 4, Moody's downgraded CEHE to Baa1 from A3 noting that financial measures will weaken more than originally projected following 2017's tax reform (as unprotected deferred taxes are refunded to customers) along with an anticipated lower return in its pending final rate order. Although Moody's views the Texas regulatory environment as supportive of credit quality, the agency noted that CEHE's ratio of cash flow pre-working capital to debt is falling into the 15% to 16% range, down from around 19% historically.

On March 17, Moody's downgraded Consolidated Edison (ConEd) to Baa2 from Baa1 and subsidiary Consolidated Edison Company of New York (CECONY) to Baa1 from A3. Moody's noted that despite $1.7 billion of planned equity through 2022, ConEd's key credit ratios will decline as a result of up to $3.8 billion of new debt planned through 2022 and weaker cash flow at CECONY. Following the approval of a recent rate order, CECONY is expected to generate a ratio of cash flow to debt between 14% and 16% over the next three years, in-line with Moody's Baa1 peer ratios. ConEd's roughly $2.0 billion of debt is structurally subordinate to that of its operating companies, with approximately 85% of consolidated revenue represented by CECONY. As a result, Moody's downgraded ConEd's rating in-step with CECONY's, despite ConEd's relatively strong and stable financial profile for a utility holding company focused mostly on transmission and distribution.

On April 6, Fitch downgraded DPL to BB from BB+ citing a potential weakening of credit metrics due to regulatory challenges in Ohio. On April 15, Fitch downgraded DTE Energy to BBB from BBB+ referencing the increased leverage and business risk associated with a recent midstream acquisition.

On June 9, Moody's downgraded Sempra Energy to Baa2 from Baa1 citing consolidated financial metrics that have remained below Moody's Baa1 downgrade threshold for the past few years and that are expected to remain below the threshold through 2022. The agency said it expects Sempra's cash flow to debt ratio will remain in the 16% range, which is more appropriate for a Baa2 rating given Sempra's consolidated risk profile.

On August 20, Moody's downgraded Ohio Power to A3 from A2 and Public Service of Oklahoma to Baa1 from A3. The downgrades for both of these American Electric Power subsidiaries reflected weakened financial metrics from large capital programs with increased use of leverage.

On October 8, S&P downgraded Entergy New Orleans to BBB from BBB+ over severe storm and hurricane risk in the utility's service territory. S&P said its negative outlook for this Entergy subsidiary reflects its small service territory, ongoing exposure to severe storms and hurricanes, and the agency's expectation of weaker financial measures partly from higher capital spending and elevated leverage.

S&P downgraded two generation subsidiaries based on potential asset divestitures. On August 6, PSEG Power was downgraded to BBB from BBB+ after its parent, Public Service Enterprise Group, announced plans to explore a sale of its merchant, non-nuclear power assets. In its announcement of that decision, PSEG cited decreasing profit margins at PSEG's fossil fuel and solar assets. On November 4, Exelon Generation Company was also downgraded to BBB from BBB+ after its parent Exelon Corp. confirmed it is conducting a strategic review of its corporate structure to create value and position the business for success. This may include the possibility of separating Exelon Generation from utility operations.

Ratings by Company Category

Table V, S&P Utility Credit Rating Distribution by Company Category, 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, 2020, the average rating for both the Regulated and Mostly Regulated categories was BBB+.

Credit Impact of COVID-19

In April 2020, S&P revised its ratings outlook for the North America regulated utility industry to negative from stable with the possibility of a one-notch decline in the industry's median credit rating, but also said it expects the industry to remain a high credit quality, investment-grade industry. Prior to the coronavirus outbreak in North America, about 25% of utilities had either a negative outlook or were on CreditWatch with negative implications. S&P viewed the economic impact of COVID-19 as a source of incremental pressure that could lead to additional downgrades and negative outlooks.

In its February 2021 update, S&P maintained its negative outlook for the industry, reflecting the weakening of credit quality in 2020 as downgrades outpaced upgrades. But S&P said that COVID-19 was not the direct culprit, as the industry has generally handled the pandemic well. S&P instead cited regulatory issues caused by COVID-19's broader impact on the U.S. economy, companies' practice of strategically managing financial measures close to their downgrade threshold with little or no cushion, as well as some specific governance matters. S&P's universe of North American utilities consists of about 250 water, gas and electric utilities.

Moody's and Fitch each maintained their stable outlook for electric utilities. In March, Moody's reported that the U.S. regulated utility sector (electric, gas and water) is better positioned than many industries to withstand the economic fallout from COVID-19. In addition to benefiting from relatively stable residential customer demand, utilities can rely on a variety of cost recovery tools provided by state regulators. Moody's stated that market volatility is the biggest risk for utilities because the sector requires external capital to meet sizeable liquidity needs. While Moody's expects utilities to generally retain unfettered access to the capital markets, it noted that the continued spread of the coronavirus and mounting pressures on commercial and industrial customers could ultimately weigh on utility credit quality. In a November sector update, Moody's observed that many businesses closed or curtailed operations after the initial coronavirus outbreak, causing a sharp decline in commercial and industrial electricity sales beginning in late March. By contrast, residential electricity sales increased because of the large number of people remaining at home as well as higher-than-normal summer temperatures. Going forward, Moody's expects that higher residential demand will mitigate the loss of revenues and cash flow from commercial and industrial customers as residential sales generate a higher gross margin per kilowatt-hour.

Fitch's 2021 Outlook for North American Utilities, Power & Gas report (released December 2020) noted its stable outlook is based on the pandemic's benign direct impact on the industry and a generally favorable regulatory environment. Utilities have aggressively managed O&M costs in 2020; in combination with higher residential sales, this more than offset the impact of commercial and industrial sales declines. Fitch's stable outlook is further supported by low interest rates (given the industry's capital-intensive nature), low commodity costs, and a likely return to modest secular sales growth as the economic recovery gains strength.■