Q3 2022
Credit Ratings

HIGHLIGHTS

- The average parent company rating remained at BBB+ throughout the first nine months of 2022, a level it has held since 2014. Ratings activity remained slow with only 32 actions (affecting both parent companies and subsidiaries). There were no S&P ratings changes at the parent company level during the first nine months of 2022.
- Industry credit quality has improved over the past decade, although it experienced a slight decline, in aggregate, in 2019, 2020 and 2021 even as the parent-company average was steady. The five-year period 2013 through 2017 produced the five highest upgrade percentages in our 22 years of historical data.
- On September 30, 2022, 77.3% of parent company ratings outlooks were "stable" and 9.1% were "positive" or "watch-positive". Only 13.6% of outlooks were "negative" or "watch-negative"; that was down from 22.7% at year-end 2021 and the lowest negative share at any quarter end since Q4 2013.

COMMENTARY

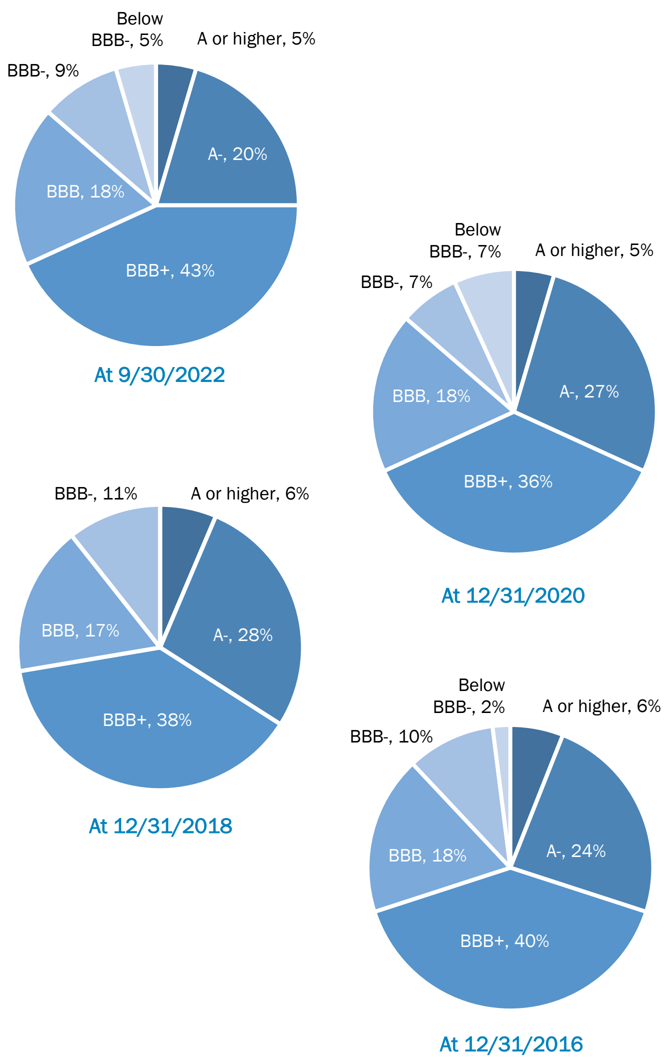
The industry's average parent company credit remained at BBB+ throughout the first nine months of 2022, a level it has held since 2014. In fact, Standard & Poor's (S&P) did not issue any parent-level rating actions in 2022.

There were only 32 total actions — 24 upgrades and 8 downgrades — affecting both parents and subsidiaries. This compares to 24 total actions — 5 upgrades and 19 downgrades — during the first nine months of 2021. The industry has averaged 73 actions annually over the last decade.

On September 30, 2022, 77.3% of parent company ratings outlooks were "stable" and 9.1% were "positive" or

I. S&P Utility Credit Ratings Distribution

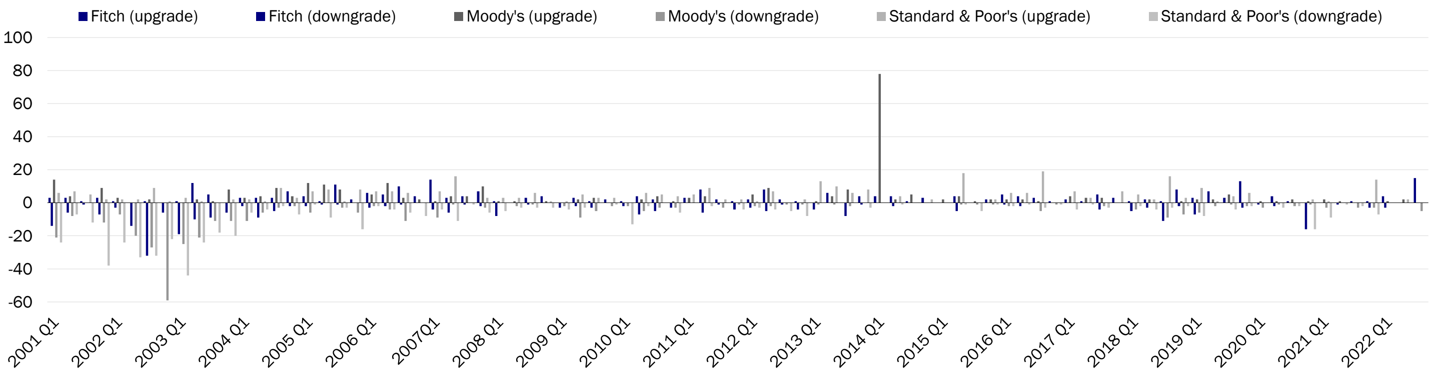
U.S. Investor-Owned Electric Utilities (parent level only)



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)



	2017				2018				2019				2020				2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fitch (upgrade)	2	1	5	3	1	2	1	8	3	7	3	13	0	4	1	0	0	0	1	1	4	0	15
Fitch (downgrade)	0	0	-4	0	-5	-3	-11	-2	-7	0	0	-3	-1	-2	0	-16	0	-1	0	-3	-3	0	0
Moody's (upgrade)	4	3	3	0	0	2	0	1	2	2	5	0	1	1	2	1	2	1	0	0	1	2	0
Moody's (downgrade)	0	0	-2	0	-4	0	-9	-7	-6	-2	-1	-2	-3	-1	-2	-1	-3	0	-3	-3	0	0	-5
S&P (upgrade)	7	3	0	7	5	2	16	3	9	1	4	6	0	0	0	2	1	0	0	14	0	2	0
S&P (downgrade)	-4	-1	-3	0	-2	-4	-3	-2	-8	0	-4	-2	0	-3	-2	-16	-9	-1	-2	-7	0	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)

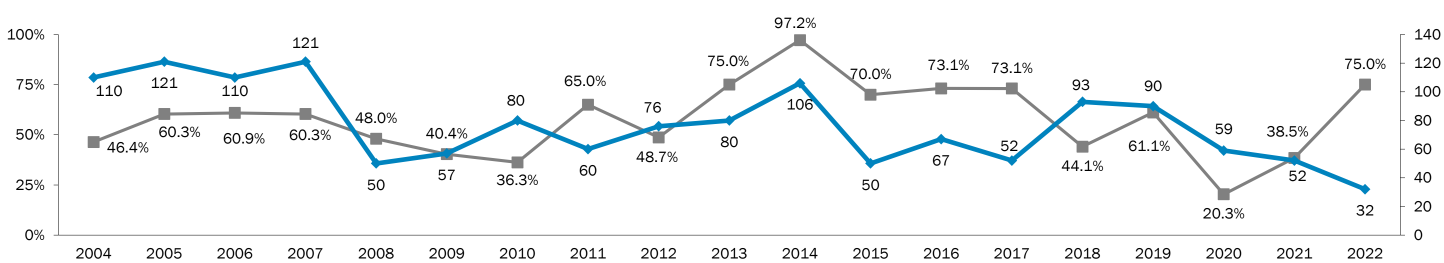
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
Fitch	34	22	31	41	17	14	24	25	26	23	14	11	16	15	33	36	24	6	22
Moody's	42	46	39	32	6	23	20	11	20	17	85	12	13	12	23	20	12	12	8
S&P	34	53	40	48	27	20	36	24	30	40	7	27	38	25	37	34	23	34	2
Total	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52	32

* through September 30
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)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*
Upgrades	51	73	67	73	24	23	29	39	37	60	103	35	49	38	41	55	12	20	24
Downgrades	59	48	43	48	26	34	51	21	39	20	3	15	18	14	52	35	47	32	8
% Upgrades	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	75.0
Total Actions	110	121	110	121	50	57	80	60	76	80	106	50	67	52	93	90	59	52	32



*through September 30 / 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)

	12/31/2015		12/31/2016		12/31/2017		12/31/2018		12/31/2019		12/31/2020		12/31/2021		9/30/2022	
REGULATED																
A or higher	1	3%	2	6%	2	6%	1	3%	1	3%	1	3%	1	3%	1	3%
A-	8	22%	10	28%	12	34%	11	32%	11	31%	11	32%	8	23%	8	22%
BBB+	12	33%	13	36%	10	29%	11	32%	11	31%	10	29%	14	40%	15	42%
BBB	12	33%	8	22%	7	20%	7	21%	8	23%	7	21%	7	20%	7	19%
BBB-	1	3%	3	8%	4	11%	4	12%	2	6%	2	6%	3	9%	3	8%
Below BBB-	2	6%	0	0%	0	0%	0	0%	2	6%	3	9%	2	6%	2	6%
Total	36	100%	36	100%	35	100%	34	100%	35	100%	34	100%	35	100%	36	100%
MOSTLY REGULATED																
A or higher	1	8%	1	8%	1	7%	2	15%	1	10%	1	10%	1	11%	1	13%
A-	5	38%	2	17%	2	14%	2	15%	1	10%	1	10%	1	11%	1	13%
BBB+	5	38%	7	58%	7	50%	7	54%	7	70%	6	60%	5	56%	4	50%
BBB	1	8%	0	0%	2	14%	1	8%	0	0%	1	10%	1	11%	1	13%
BBB-	1	8%	1	8%	1	7%	1	8%	1	10%	1	10%	1	11%	1	13%
Below BBB-	0	0%	1	8%	1	7%	0	0%	0	0%	0	0%	0	0%	0	0%
Total	13	100%	12	100%	14	100%	13	100%	10	100%	10	100%	9	100%	8	100%
DIVERSIFIED																
A or higher	0	0%	0	0%												
A-	0	0%	0	0%												
BBB+	1	50%	0	0%												
BBB	0	0%	1	50%												
BBB-	1	50%	1	50%												
Below BBB-	0	0%	0	0%												
Total	2	100%	2	100%												

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

"watch-positive". Only 13.6% of outlooks were "negative" or "watch-negative"; that was down from 22.7% at year-end 2021 and the lowest negative share at any quarter end since Q4 2013.

Electric utility industry credit quality generally improved over the past decade. The industry's average parent level rating has held at BBB+ since increasing from BBB in 2014. A closer look at the underlying calculation of this average shows a steady strengthening from 2013 through 2018, followed by a slight decline in 2019, 2020 and 2021. Across the 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% 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, 2022 included 39 that are publicly traded and 5 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

There were no S&P ratings changes at the parent company level during the first nine months of 2022.

Ratings Activity Remains Slow

With only 32 rating actions during the first nine months of the year, 2022 is on track to be one of the quietest years for ratings activity since our dataset's inception in 2000. By comparison, there were 59 actions in 2020, 90 in 2019, and an annual average of 73 over the last decade.

The 24 upgrades and 8 downgrades through Q3 2022 resulted in a 75% upgrade percentage, up from 21% during the first nine months of 2021.

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

Fitch accounted for the majority of 2022's 32 actions with 19 upgrades and 3 downgrades, Moody's produced eight (3 upgrades, 5 downgrades) and Standard & Poor's only two (two upgrades, 0 downgrades).

Upgrades in 2022

Many of the year's upgrades came after favorable regulatory outcomes or strengthened financial metrics under new ownership. Upgrades were also driven by the use of asset sale proceeds to reduce parent company debt.

On January 14, Fitch upgraded Pepco Holdings, Pepco and Atlantic City Electric to BBB+ from BBB due to improved credit profiles from supportive regulatory decisions.

On January 28, Moody's upgraded Entergy Texas to Baa2 from Baa3, following improved legislative and regulatory support. Moody's cited as reasons for the upgrade a recent authorization to securitize $250 million of storm costs, expedited cost recovery for a combined-cycle plant that recently began operations, and an upcoming rate case proceeding.

On March 30, Fitch upgraded Public Service Company of North Carolina (PSNC) to A- from BBB+ citing its strengthened financial condition as a result of equity contributions under Dominion's ownership since 2019 and a favorable recent rate case outcome. The North Carolina commission approved a settlement with an ROE of 9.6% and equity capitalization of 51.6%. This was the first PSNC rate case under Dominion ownership. Fitch also cited strong service territory customer growth that support improved credit metrics.

On May 27, S&P upgraded PPL Electric Utilities (PPLEU), the Pennsylvania transmission and distribution subsidiary of PPL, to A from A-. The upgrade reflects S&P's view that PPLEU's financial performance, funding arrangements and operational independence are sufficient to support this rating.

On June 2, S&P Global Ratings raised the issuer credit rating of Narragansett Electric Co. (NECO) by one notch to A-. S&P cited the resolution of legal issues in Rhode Island that cleared the way for PPL to finalize its acquisition of Narragansett Electric. S&P assessed NECO's business risk profile as excellent due to supportive regulatory mechanisms in Rhode Island as well as electric transmission assets that benefit from a very supportive FERC regulatory framework.

On June 6, Moody's upgraded PPL Corporation to Baa1 from Baa2, based on its improved business risk profile; PPL reduced parent company debt by $3.5 billion using proceeds from the sale in 2021 of its U.K. utility business, Western Power Distribution, to National Grid for net cash proceeds of $10.4 billion. Moody's stable outlook reflects PPL's new business mix with its four U.S. utilities all operating in supportive regulatory environments. Moody's also upgraded Narragansett Electric Company to A3 from Baa1.

On July 22, Fitch upgraded FirstEnergy (FE) to BBB- from BB+ based on FE's completed sale in May 2022 of a 20% ownership interest in FirstEnergy Transmission for $2.4 billion, FE's issuance of $1 billion of new equity, and a regulatory settlement in Ohio that provide rate certainty through May 2024. FirstEnergy used proceeds from its asset sales and equity issuance to paydown $2.4 billion of parent company debt. Fitch also raised the rating for fourteen subsidiaries.

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

Downgrades in 2022

Many downgrades focused on increased debt and cash flow pressures that impacted credit metrics. Slow recovery of planned capital expenditures also drove several downgrades. Project delays related to a large nuclear project were cited too.

On January 14, Fitch downgraded Exelon to BBB from BBB+ due to higher leverage after the company's separation from its unregulated generation subsidiary, despite a resulting improved risk profile. Fitch observed that an expected equity issuance will not offset the loss of cash from the generation subsidiary and will result in increased parent debt.

On February 22, Fitch downgraded Georgia Power Company to BBB from BBB+ following an announced three- to six-month delay of the projected in-service dates for Vogtle nuclear units 3 and 4. The downgrade reflects continued uncertainty regarding the completion schedule and remaining costs for these nuclear generating facilities, with Georgia Power bearing a larger portion of cost increases under a 2018 modified co-owner agreement.

On March 24, Fitch downgraded NorthWestern Corporation to BBB from BBB+, primarily due to weaker credit metrics from expected regulatory lag during a period of extensive capital expenditures. The company's credit metrics are being pressured by a challenging regulatory framework, which is largely backward-looking, and a series of unfavorable rulings by the Montana commission that deny or delay recovery of expenses.

On July 6, Moody's downgraded IDACORP to Baa2 from Baa1 and subsidiary Idaho Power Company (IPC) to Baa1 from A3. Approximately 90% of IDACORP's cash flow is generated by IPC. Moody's observed that credit metrics would improve with more timely rate relief through riders or cost tracking mechanisms, quicker asset recovery via depreciation rates, and more frequent rate case filings. IPC's last rate increase under a general rate review occurred in 2011.

On August 22, Moody's downgraded AEP subsidiary Ohio Power Company to Baa1 from A3. Moody's cited weakened credit metrics from increased debt used to finance Ohio Power's significant investments in transmission and distribution infrastructure. Ohio Power's cash flow has also been negatively impacted by the expiration of legacy riders associated with the transition to competition in Ohio.

On September 13, Moody's downgraded the ratings of First Energy subsidiaries Cleveland Electric Illuminating Company (to Baa3 from Baa2) and Toledo Edison (to Baa2 from Baa1). Moody's said the companies will be adversely impacted by cash flow pressures caused by customer refunds stipulated in a 2021 regulatory settlement in Ohio. Both companies are expected to file rate cases by May 2024, when their current Electric Security Plans (ESP) expire.

Ratings by Company Category

Table V, S&P Utility Credit Ratings Distribution by Company Category, shows 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. On September 30, 2022, the average rating for both the Regulated and Mostly Regulated categories was BBB+.■