Edison Electric Institute

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Credit Ratings

Q3 2014
FINANCIAL UPDATE

QUARTERLY REPORT
OF THE U.S. SHAREHOLDER-OWNED
ELECTRIC UTILITY INDUSTRY

About EEI

The Edison Electric Institute (EEI) is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, operate in all 50 states and the District of Columbia, and directly employ more than 500,000 workers. With $90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. Reliable, affordable, and sustainable electricity powers the economy and enhances the lives of all Americans. EEI has 70 international electric companies as Affiliate Members, and 270 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 54 U.S. shareholder-owned electric utility companies. These 54 companies include 48 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and six electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

Dividends	Rate Case Summary
Stock Performance	SEC Financial Statements (Holding Companies)
Credit Ratings	FERC Financial Statements (Regulated Utilities)
Construction	Fuel

EEI Finance Department material can be found online at:
www.eei.org/QFU

For EEI Member Companies

The EEI Finance and Accounting Division is developing 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 financial publications and industry data sets best address the needs of member companies and the financial community. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

EEI Wall Street Briefing
February 11, 2015
University Club
New York, New York

50th EEI Financial Conference
November 8-11, 2015
Westin Diplomat
Hollywood, Florida

For more information about EEI Finance Meetings,
please contact Debra Henry, (202) 508-5496, DHenry@eei.org

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The 54 U.S. Shareholder-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)
Avista Corporation (AVA)
Berkshire Hathaway Energy
Black Hills Corporation (BKH)
CenterPoint Energy, Inc. (CNP)
Cleco Corporation (CNL)
CMS Energy Corporation (CMS)
Consolidated Edison, Inc. (ED)
Dominion Resources, Inc. (D)
DPL, Inc.
DTE Energy Company (DTE)
Duke Energy Corporation (DUK)
Edison International (EIX)
El Paso Electric Company (EE)
Empire District Electric Company (EDE)
Energy Future Holdings Corp. (formerly TXU Corp.)
Entergy Corporation (ETR)
Exelon Corporation (EXC)
FirstEnergy Corp. (FE)
Great Plains Energy Incorporated (GXP)
Hawaiian Electric Industries, Inc. (HE)
Iberdrola USA
IDACORP, Inc. (IDA)
Integrys Energy Group, Inc. (TEG)
IPALCO Enterprises, Inc.
MDU Resources Group, Inc. (MDU)
MGE Energy, Inc. (MGEE)
NextEra Energy, Inc. (NEE)
NiSource Inc. (NI)
Northeast Utilities (NU)
NorthWestern Corporation (NWE)
OGE Energy Corp. (OGE)
Otter Tail Corporation (OTTR)
Pepco Holdings, Inc. (POM)
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.
SCANA Corporation (SCG)
Sempra Energy (SRE)
Southern Company (SO)
TECO Energy, Inc. (TE)
UIL Holdings Corporation (UIL)
Unitil Corporation (UTL)
Vectren Corporation (VVC)
Westar Energy, Inc. (WR)
Wisconsin Energy Corporation (WEC)
Xcel Energy, Inc. (XEL)

Companies Listed by Category
(as of 12/31/2013)

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. Never-the-less, 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%+ of total assets are regulated
Mostly Regulated	50% to 80% of total assets are regulated
Diversified	Less than 50% of total assets are regulated

Categorization of the 48 publicly traded utility holding companies is based on year-end business segmentation data presented in 10Ks, supplemented by discussions with company IR departments. Categorization of the six non-publicly traded companies (*shown in italics*) is based on estimates derived from FERC Form 1 data 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 (38 of 54)

ALLETE, Inc.
Alliant Energy Corporation
Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
Black Hills Corporation
Cleco Corporation
CMS Energy Corporation
Consolidated Edison, Inc.
DPL, Inc.
DTE Energy Company
Duke Energy Corporation
Edison International
El Paso Electric Company
Empire District Electric Company
Entergy Corporation
Great Plains Energy Incorporated
Iberdrola USA
IDACORP, Inc.
Integrys Energy Group
IPALCO Enterprises, Inc.
Northeast Utilities
NorthWestern Energy
OGE Energy Corp.
Otter Tail Corporation
Pepco Holdings, Inc.
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
Puget Energy, Inc.
Southern Company
TECO Energy, Inc.
UIL Holdings Corporation
Unitil Corporation
Westar Energy, Inc.
Wisconsin Energy Corporation
Xcel Energy, Inc.

Mostly Regulated (13 of 54)

Berkshire Hathaway Energy
CenterPoint Energy, Inc.
Dominion Resources, Inc.
Exelon Corporation
FirstEnergy Corp.
MGE Energy, Inc.
NextEra Energy, Inc.
NiSource Inc.
PPL Corporation
Public Service Enterprise Group, Inc.
SCANA Corporation
Sempra Energy
Vectren Corporation

Diversified (3 of 54)

Energy Future Holdings
Hawaiian Electric Industries, Inc.
MDU Resources Group, Inc.

Note: Based on assets at 12/31/2013

Q3 2014

Credit Ratings

HIGHLIGHTS

- There were no parent-level ratings actions in Q3. The industry's average credit rating remained BBB+.
- 2014's actions through Q3 were been largely positive, with 98 upgrades outnumbering three downgrades.
- Credit outlooks remain stable to positive due to de-risking of business models through renewed focus on regulated activities and improved industry regulation.
- S&P and Moody's expect the eventual credit impact of EPA's proposed carbon regulations for existing plants (Clean Power Plan) to be significant, but it's too early to reach conclusions due to a multi-year implementation schedule and potential legal wrangling. S&P noted that four themes — regional differences, timing issues, costs and fuel mixes — will shape credit implications across industry subsectors and companies.

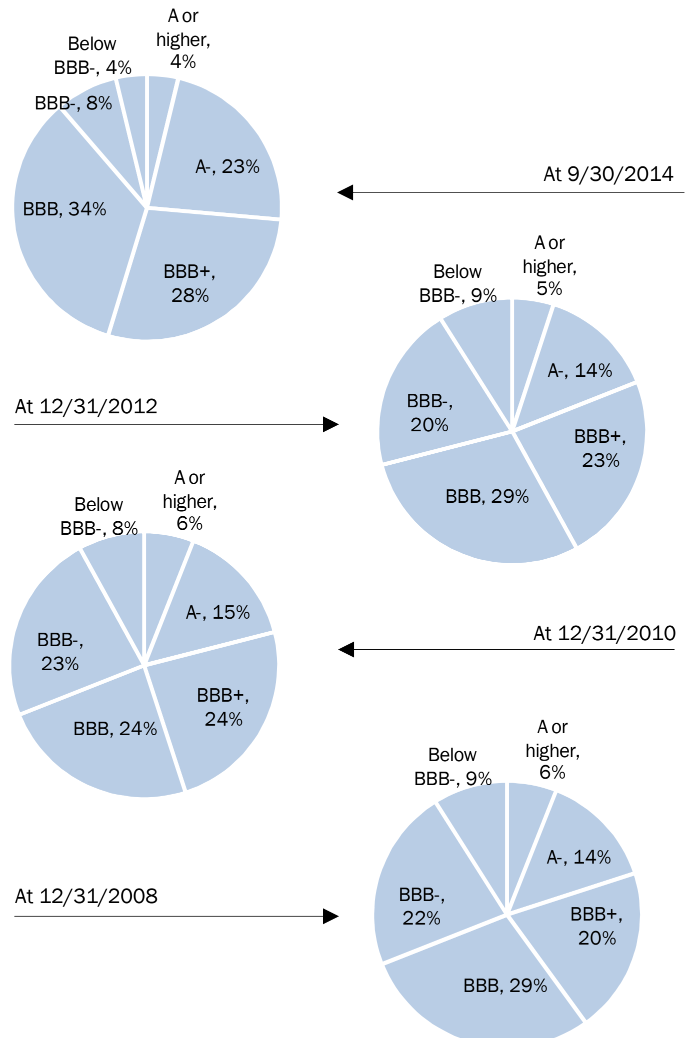
COMMENTARY

There were no parent-level ratings actions in Q3 and the industry's average credit rating remained BBB+. During Q2, the average rating rose to BBB+ from BBB, the first change since the move to BBB from BBB- in 2004. Total ratings activity, at 101 changes through September 30, was significantly higher than in the comparable 2013 period, reflecting Moody's decision in late January to upgrade most regulated utilities by one notch. Accordingly, 2014's actions have been largely positive, with 98 upgrades outnumbering three downgrades.

EEI captures upgrades and downgrades at the subsidiary level; multiple actions within a single parent holding company are included in the upgrade/downgrade totals. The industry's average credit rating and outlook are based on the unweighted averages of all Standard & Poor's parent company ratings and outlooks.

I. S&P Utility Credit Ratings Distribution

U.S. Investor-Owned Electric Utilities

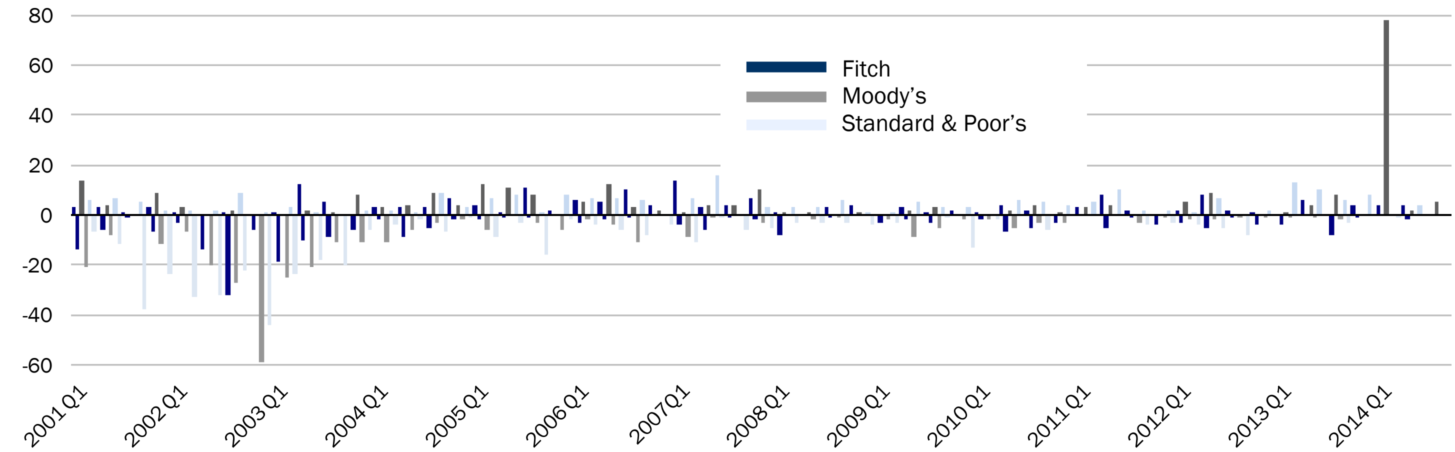


Note: Rating applies to utility holding company entity.
Source: SNL Financial and EEI Finance Department

II. Credit Rating Agency Upgrades and Downgrades

U.S. Investor-Owned Electric Utilities

Positive = upgrades Negatives = downgrades



	2008				2009				2010				2011				2012				2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Fitch (Up)	1	0	3	4	0	3	1	2	1	4	2	0	3	8	2	1	2	8	2	1	0	6	0	4	4	4	1
Fitch (Down)	-8	0	-1	0	-3	-2	-3	0	-2	-7	-5	-3	0	-6	-1	-4	-3	-5	-1	-4	-4	0	-8	-1	0	-2	0
Moody's (Up)	1	1	0	1	0	2	3	0	0	2	4	1	3	4	0	0	5	9	0	0	1	4	8	0	78	2	5
Moody's (Down)	0	-2	-1	0	-2	-9	-5	-2	-2	-5	-3	-3	0	0	-3	-1	-2	-2	-1	-1	-1	-1	-2	0	0	0	0
S&P (Up)	3	3	6	1	1	5	3	3	0	6	5	4	5	9	2	2	1	7	0	2	13	10	6	8	0	4	0
S&P (Down)	-5	-3	-3	-3	-4	-3	0	-1	-13	-2	0	-6	0	-2	0	-4	-3	-4	-5	-8	0	0	0	-3	0	-1	0

Note: Data presents the number of occurrences and includes each event, even if multiple actions occurred for a single company.
Source: SNL Financial and EEI Finance Department

III. Total Ratings Actions

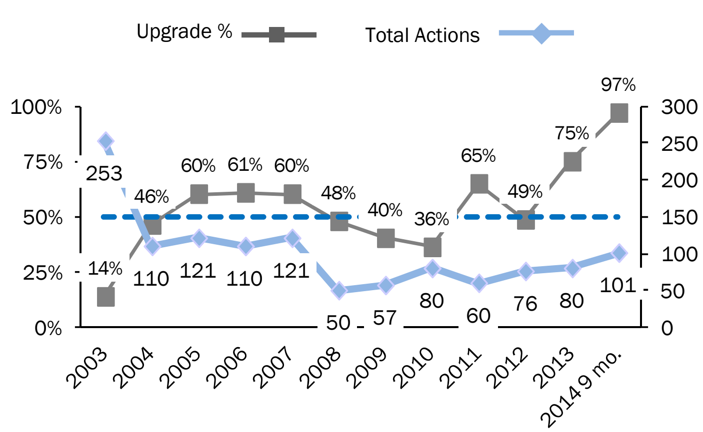
U.S. Investor-Owned Electric Utilities

	2008	2009	2010	2011	2011	2012	2013	2014*
Fitch	17	14	24	16	25	26	23	11
Moody's	6	23	20	7	11	20	17	85
Standard & Poor's	27	20	36	15	24	30	40	5
Total	**50**	**57**	**80**	**38**	**60**	**76**	**80**	**101**

Note: Full year, except where noted. / * Through September 30
Source: SNL Financial and EEI Finance Department

IV. Direction of Ratings Actions

U.S. Investor-Owned Electric Utilities



Note: Full year, except where noted.
Source: SNL Financial and EEI Finance Department

V. S&P Utility Credit Rating Distribution by Company Category (at period end)

U.S. Investor-Owned Electric Utilities

	12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		12/31/2013		9/30/2014	
REGULATED																
A or higher	5	13%	3	8%	3	7%	3	9%	3	8%	2	6%	1	3%	1	3%
A-	2	5%	4	10%	6	15%	5	14%	5	14%	6	17%	7	20%	8	21%
BBB+	10	26%	9	23%	9	22%	6	17%	7	19%	5	14%	6	17%	10	26%
BBB	8	21%	9	23%	11	27%	11	31%	13	35%	13	36%	17	49%	16	42%
BBB-	7	18%	9	23%	8	20%	6	17%	5	14%	6	17%	2	6%	1	3%
Below BBB-	6	16%	5	13%	4	10%	4	11%	4	11%	4	11%	2	6%	2	5%
Total	38	100%	39	100%	41	100%	35	100%	37	100%	36	100%	35	100%	38	100%
MOSTLY REGULATED																
A or higher	1	5%	1	5%	2	11%	1	5%	1	5%	1	6%	1	6%	1	8%
A-	3	16%	5	26%	2	11%	3	15%	3	16%	2	12%	5	29%	4	31%
BBB+	4	21%	2	11%	5	26%	6	30%	6	32%	7	41%	5	29%	4	31%
BBB	6	32%	8	42%	6	32%	4	20%	3	16%	3	18%	3	18%	2	15%
BBB-	4	21%	3	16%	4	21%	6	30%	6	32%	4	24%	3	18%	2	15%
Below BBB-	1	5%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total	19	100%	19	100%	19	100%	20	100%	19	100%	17	100%	17	100%	13	100%
DIVERSIFIED																
A or higher	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
A-	2	22%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
BBB+	3	33%	2	29%	1	17%	2	40%	1	25%	1	33%	1	50%	1	50%
BBB	1	11%	2	29%	2	33%	0	0%	0	0%	0	0%	0	0%	0	0%
BBB-	2	22%	2	29%	2	33%	2	40%	2	50%	1	33%	0	0%	1	50%
Below BBB-	1	11%	1	14%	1	17%	1	20%	1	25%	1	33%	1	50%	0	0%
Total	9	100%	7	100%	6	100%	5	100%	4	100%	3	100%	2	100%	2	100%

Note: Category membership based on assets at January 1 of year shown.
Percentages may not total 100% due to rounding.
Source: SNL Financial and EEI Finance Department

During the first three quarters of 2014, parent-level ratings were affected by three upgrades and no downgrades. The upgrades centered on companies' continued focus on regulated operations and the effective management of regulatory risk, as well as company-specific factors.

As of October 1, 2014, approximately 72% of companies' ratings outlooks were Stable, 17% were Positive or Watch-Positive, 9% were Negative or Watch-Negative, and 2% were Developing.

The industry's revised rating of BBB+ reflects a rounding-up of EEI's calculated average (see the Excel "Backup Data" file accompanying this report on EEI's website).

Upgrades Reflect Continued Regulated Focus

Ratings changes through the third quarter included three parent company-level upgrades.

Edison International

On April 8, S&P raised its corporate credit rating for Edison International (EIX) by two notches, to BBB+ from BBB-, on the emergence from bankruptcy of the company's former unregulated subsidiary, Edison Mission Energy. At the same time, S&P affirmed its rating for EIX's primary subsidiary, regulated utility Southern California Edison (SCE), at BBB+.

S&P noted that SCE "represents virtually all" of EIX's credit profile and has business fundamentals that, in the agency's view, are "slightly better" than most of its integrated electric utility peers. S&P said that SCE's service territory is "improving but still struggling," its financial health is protected by "strict and restrictive" oversight by the California Public Utilities Commission, the company's earned returns are "normally healthy" and that cash flow is supported by various rate mechanisms. S&P also commented that SCE's operating risk is worse than average, as highlighted by the problems it faced at the San Onofre nuclear plant.

Regarding EIX's financial metrics, S&P said it expects the utility's leverage to modestly increase with rising capital spending; it forecasts funds from operations (FFO) to debt at about 21% to 23% in the near term and debt to EBITDA of more than three times over the next several years. While S&P's upgrade of EIX was driven largely by the successful resolution of EME's bankruptcy, the agency also noted that management's "stated plans to focus mainly on regulated activities," as well as its commitment to maintaining a stable financial profile, were important considerations.

Westar

On April 29, S&P raised its corporate ratings for Westar Energy and utility subsidiary Kansas Gas & Electric to BBB+ from BBB. The upgrade reflected the company's improved business risk profile as a result of management's continuing focus on regulated operations, effective management of regulatory risk and "strengthening cost recovery through the regulatory process." S&P said that Westar's reduced business risk had led to stable profits and stronger financial metrics. The agency commented that the company's ongoing capital spending would require timely recovery through "various rate mechanisms including base rates and rate surcharges" that were likely to improve cash flow. Furthermore, S&P noted that Westar's investment in emissions control equipment at the La Cygne coal plant, which it jointly owns with Great Plains Energy's Kansas City Power & Light, does not benefit from rider recovery, meaning that Westar would need to seek base rate changes to recover its costs.

With regard to Westar's financial metrics, S&P forecast FFO to debt of 18% to 20% over the next three years and cash flow from operations (CFO) to debt of 17.5%. The agency noted that, as capital expenditures decline following the completion of the La Cygne air emissions equipment, it expects discretionary cash flow to be "much less negative," reducing the need for Westar to raise new debt and equity capital.

VI. Credit Ratings Scales

U.S. Investor-Owned Electric Utilities

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

Great Plains Energy

On May 1, S&P raised its corporate ratings for Great Plains Energy (GPE) and subsidiary Kansas City Power & Light to BBB+ from BBB. The agency's rationale was largely the same as for Westar and Kansas Gas & Electric: management's continuing focus on regulated operations, the effective management of regulatory risk and improving cost recovery through the regulatory process. Each of these factors served to improve the companies' business risk profiles. As with Westar, S&P stated that Great Plains Energy's capital spending program requires timely recovery through base rates and rate surcharges that should strengthen cash flow.

Regarding GPE's credit ratios, S&P forecast FFO to total debt of 18% over the next three years and CFO to debt of 16%. As capital spending tapers following the completion of the La Cynge emissions controls, S&P expects currently negative discretionary cash flow to improve.

A More-Regulated Business & Constructive Regulation

While 2013 marked the tenth consecutive year of a BBB rating for the industry (i.e., based on EEI's unweighted average of S&P ratings at the parent level), it was also characterized by the highest percentage of positive ratings changes (across all issuers and ratings agencies) in at least as many years. The first three quarters of 2014 extended this trend and moved the industry's average rating during the second quarter to BBB+. Early in 2014, both S&P and Moody's published industry-level outlooks describing why they expect U.S. regulated utilities to maintain stable credit profiles. While both agencies described positive factors that included the de-risking of utility business models through a renewed focus on regulated activities, Moody's emphasized that improving industry regulation was the "most important" driver of its outlook.

Moody's developed its view more fully in a report published February 3, 2014 ("U.S. Utility Sector Upgrades Driven by Stable and Transparent Regulatory Frameworks"). The report described the reasoning behind the November 2013 decision to place most regulated utilities on review for upgrade and the late January 2014 upgrade of most by one notch. Moody's described how state-level regulation had evolved over the past several years for the better, including implementation of a "suite of transparent and timely cost and investment recovery mechanisms." Moody's said the regulatory environment would likely remain "supportive and constructive" for at least three to five years.

In a report published February 19, 2014 ("Regulation Will Keep Cash Flow Stable as Major Tax Break Ends"), Moody's said the end of bonus depreciation in 2013 would cause financial metrics to decline but that improved regulatory frameworks —featuring cost-recovery mechanisms and annual base-rate increases — would play a significant offsetting role. Moody's offered several examples of positive rate case outcomes that are shaping its industry outlook, such Puget Sound Energy's in Washington and Westar Energy's in Kansas (see Q2 2014 *Rate Case Summary*). Moody's also noted that improved regulation is helping utilities manage the effects of sluggish customer demand.

In a report published in January of this year, S&P said that factors behind the industry's credit stability included continued improvement in economic conditions, sustained demand for a "very critical" commodity, the "generally supportive" posture of regulators toward cost recovery for capital expenditures, and continued demand by investors for utility equity and debt securities.

Throughout these reports, neither agency raised major concerns about risks to the stable progression of the industry's credit profile in the near to medium terms. S&P stated that "we see little alteration in the sector's business and financial risk profiles during periods of economic change" because of the essential nature of electricity, the regulated character of the business and the constructive regulatory environment. The agency also suggested that, if the economy grows faster than expected, there could be "some modest improvement" in the industry's credit worthiness. Moody's commented that "a more contentious regulatory environment" or a "widespread adoption" of more-aggressive financial strategies could lead to a negative outlook, while a "marked increase" in allowed ROEs or steps to scale back dividends and stock repurchases might lead to a positive outlook.

Implications of the EPA's Clean Power Plan

During Q2 and Q3, rating agencies analyzed the EPA's proposal for carbon limits on existing power plants, known as the Clean Power Plan (CPP). Released June 2, the plan is open to public comment through December 1; the EPA is expected to finalize the rule by June 2015. A key aspect of the rule is a requirement for states to develop individual implementation plans by June 2016 or partner with neighboring states and develop a multi-state plan by June 2017-18 (the deadlines are tentative and subject to revision).

S&P and Moody's both expect the eventual credit impact of the CPP to be significant but not uniform across the U.S. electricity sector. Furthermore, both expect the rules' effects to take shape over an extended period of time.

On June 3, Moody's described the EPA's draft rule as "credit-negative for coal-dependent utilities, power projects and merchant power generators because . . . the rule will likely result in reduced power volumes and higher costs for generation." However, Moody's expects that regulated utilities, including those with large coal fleets, will do better than unregulated power generators because regulated utilities generally have mechanisms in place to recover costs and investments associated with environmental mandates. Moody's also noted that it believes certain merchant generators, including Exelon and Calpine, will benefit from the CPP because their fleets emphasize nuclear or natural gas generation. Moody's said these companies face comparatively smaller capital investment needs and won't have to "materially change" their generation portfolios.

In a special report published September 2, S&P came to similar conclusions. The agency characterized the CPP as potentially "the most ambitious effort at mitigating the effects of climate change since the Clean Air Act of 1990;" however, it expects that "meaningful credit impacts" are unlikely to be imminent. S&P said the proposed rule will likely "undergo exhaustive reviews and spur much litigation before implementation" but that EPA will finalize it "more or less in its proposed form."

S&P also described how four themes — regional differences, timing issues, costs and fuel mixes — will shape credit implications across industry subsectors and companies.

Regional Differences — The agency stated that the cost of reducing carbon emissions will be "much greater" in some states than in others. For example, while CPP reduction goals for Ohio and Kentucky are less aggressive than for other states, "their percentage reductions would be quite steep considering their limited generating flexibility, minimal remediation efforts to date, and constrained natural gas pipeline capacity."

Timing — S&P emphasized the uncertainty associated with potential litigation of the EPA's final rule and noted that states' implementation plans are not due until mid-2016 at the earliest. Therefore any credit implications before 2016 would result from anticipatory actions that companies may choose to take.

Costs — S&P expressed the view that power prices are likely to rise "in response to carbon-trading schemes" but that utilities might work to reduce generating costs through demand management programs.

Fuel — S&P stated that the CPP favors natural gas over coal. Therefore, the agency expects capacity factors to improve for natural gas and decline for coal, but noted that outcomes would vary regionally "based on gas and coal supply availability and the region's current generating profile."

While it's too early to reach conclusions about the CPP's impact on credit ratings, the industry faces the issue from a position of strength. As the rating agencies have noted in industry outlooks and recent rating changes, strong regulatory relationships and the continued shift toward regulated business models have reduced fundamental risks and resulted in both credit stability and improved financial metrics.

Ratings by Company Category

The table S&P Utility Credit Rating Distribution by Company Category presents the distribution of credit ratings over time for the investor-owned electric utilities organized into Regulated, Mostly Regulated and Diversified categories. Ratings are based on S&P long-term issuer ratings at the holding company level, with only one rating assigned per company. At September 30, 2014, the categories had the following average ratings: Regulated = BBB+, Mostly Regulated = BBB+, and Diversified = BBB.■