

**OUTLOOK REPORT****North American Utilities, Power & Gas Outlook 2024**

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Fitch's Sector Outlook: Deteriorating Fitch Ratings' deteriorating outlook for the North American Utilities, Power & Gas sector reflects continuing macroeconomic headwinds and elevated capex that are putting pressure on credit metrics in the high-cost funding environment. Bill affordability concerns for ratepayers continue to persist despite the pull back in natural gas prices and inflationary pressures. Fitch expects utility capex to grow by double digits in 2024, underpinned by investments needed to make the electric infrastructure more resilient against extreme weather events and to accommodate renewable generation, including distributed sources. Rate case outcomes are key to watch as regulators balance more rate requests with increases in customer bills. Authorized ROEs could prove to be sticky despite an increase in cost of capital. Higher weather-normalized retail electricity sales, driven by datacenter growth and onshoring of manufacturing activities, and tax transferability provisions of the Inflation Reduction Act could somewhat offset headwinds to utilities. Ongoing management actions to sell assets and issue equity, in some cases, is supportive of parent companies' ratings. Within Fitch's coverage, 90% of ratings hold Stable Rating Outlooks. We expect limited rating movement in 2024. The number of upgrades in 2023 so far exceeds the number of downgrades, and is driven by positive rating actions on several parent holding companies and their regulated subsidiaries. Notable examples are one-notch upgrades of PG&E Corporation (BB+/Stable) and Edison International (BBB/Stable). An increase in extreme weather activity, including catastrophic wildfires, could present material event risks to electric utilities, especially those serving wildfire-prone states. Execution risk with large, complex projects, such as offshore wind, is an additional source of concern.