

North American Utilities & Power Outlook 2026

Rising Power Demand Drives Record Capex

Fitch's Sector Outlook: Neutral

Fitch Ratings' 'neutral' sector outlooks for North American Utilities, Power & Gas (UPG) and North American Power Project Finance (PPF) are supported by a meaningful expected increase in electricity sales primarily due to growing commercial and industrial (C&I) demand and a generally benign regulatory environment for utilities. Fitch expects retail electricity sales to grow 2.0% to 2.5% over 2026–2030, with a significant portion of that growth coming from data center demand.

Higher data center related growth is a potentially meaningful positive development for both UPG and PPF but raises longer term uncertainty around rate design, customer concentration and technology risks. Meanwhile, utility sector capital expenditures (capex) to meet growth, including data center demand, and enhance grid resilience and modernization continue to set records. The industry expects to invest about \$1.1 trillion over the next five years, according to the Edison Electric Institute (EEI). Fitch expects a generally balanced regulatory environment will continue to facilitate cost recovery in a credit supportive manner.

Rating Outlook Distribution

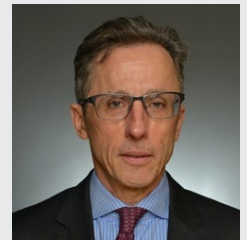
As of Oct. 31, 2025, 87% of UPG ratings were assigned Stable Rating Outlooks. The number of upgrades in 2025 so far exceeds the number of downgrades, consistent with the trend seen over the last three years, albeit at a somewhat thinner margin. Extreme weather activity, including catastrophic wildfires and hurricanes, continue to present material event risk for electric utilities. The median senior unsecured rating for operating subsidiaries remains steady at 'A-' in 2025, and Fitch expects no change through YE 2026. The median senior unsecured rating for parent holding companies is currently 'BBB' and is expected to remain at 'BBB' through YE 2026, supported by management actions, including asset sales and equity issuance.

Fitch's PPF portfolio is primarily positioned in the 'BBB' category with mostly Stable Rating Outlooks, reflecting largely contracted revenues with creditworthy counterparties. YTD 2025, there have been three downgrades and ten upgrades. Most ratings actions were affirmations, though there was a notable increase in Negative Outlooks in 2025. About 78% of Outlooks are Stable.

What to Watch

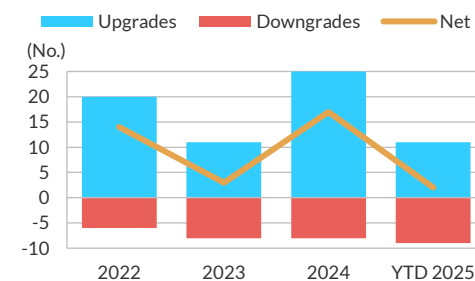
- The emergence and integration of data center demand growth.
- Regulatory resistance to future rate increase requests due to affordability concerns.
- Federal energy policy initiatives impacting renewables.

Philip Smyth, CFA, Senior Director



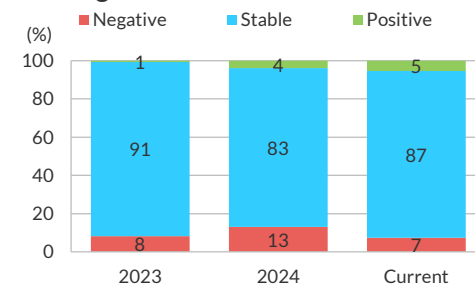
"Higher data center related growth is a potentially meaningful positive development for both UPG and PPF but raises longer term uncertainty around rate design, customer concentration and technology risks."

North American Utilities, Power & Gas - Rating Changes



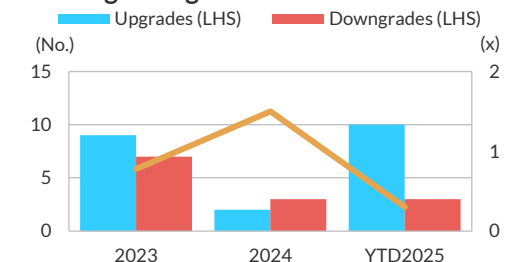
Source: Fitch Ratings

North American Utilities, Power & Gas - Rating Outlooks



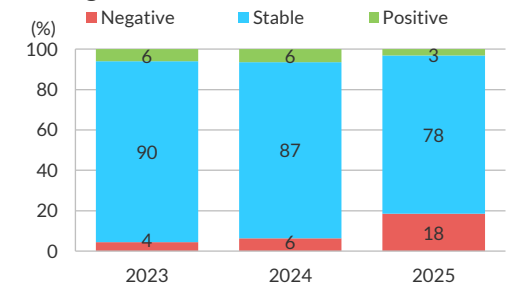
Source: Fitch Ratings

North American Power Project Finance - Rating Changes



Source: Fitch Ratings

North American Power Project Finance - Rating Outlooks



Source: Fitch Ratings

What to Watch - UPG

Key Macro Assumptions

Fitch's key economic assumptions for the sector include resilient U.S. GDP year-over-year growth of 1.9% in 2026, CPI inflation of 3.2%, and a 10-year U.S. Treasury rate of 4.2% at YE 2026. The natural gas price assumption for Henry Hub is \$3.50 per million British thermal units (MMBtu). Other key assumptions include compound annual electricity demand growth of about 2.0% to 2.5% from 2026 through 2030 and around 10% growth in industry capex through 2027.

Accelerating Growth

Fitch believes U.S. electricity demand, which had been relatively flat over the last two decades, is poised to grow 2.0% and 2.5% per year from 2026 through 2030, with data center demand accounting for more than one-third of that growth. Based on data from the U.S. Energy Information Administration, data centers could account for more than 10% of total U.S. power demand. Other drivers of increasing power demand include the onshoring of manufacturing activity and the electrification of sectors such as transportation, buildings, and oil and gas, among others. While the increase in electricity sales is a potential positive that could improve utility sector earnings and cash flows, upward pressure on rates from high and rising capex, along with tariff structure, customer concentration and technology risks, remain a concern.

Affordability Front and Center

Potential resistance to future rate increases is a key concern for the sector in the near-to-intermediate term. Pushback from regulators could result in lower-than-expected revenue streams and higher leverage. Fitch expects bill affordability will be front and center for the industry as utilities invest heavily to meet the expected surge in demand from data centers. Utility rate filings to recover high and rising capex are expected to push monthly bills higher. The average price of electricity for residential, commercial and industrial customers increased at a compound annual rate of just under 5% for the five-year period ending in 2024, a sharp increase from the average annual increase of just under 1% for the previous five-year period.

Rising Capex Trend

Utilities continue to invest heavily to enhance system resilience and reliability to modernize the grid and meet accelerating demand growth. From 2015 through 2024, capex increased at a 6% compound annual rate. EEI projects a 17% increase in capex in 2025 from 2024 levels, and that capex will grow at a compound annual rate of around 9% from 2024 through 2027.

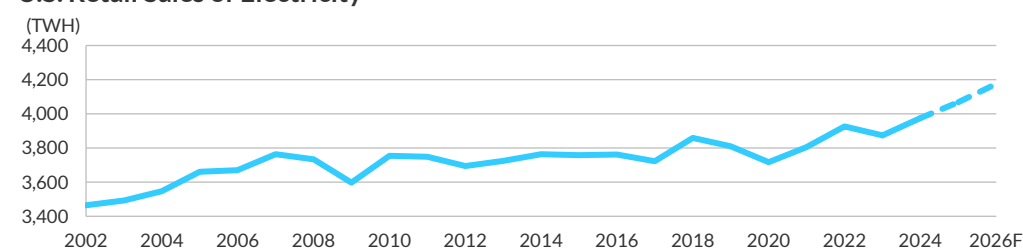
North American Utilities - Median Credit Metrics

(%)	2024	2025F	2026F	2027F
Revenue growth	-1.8	5.5	6.2	5.7
FFO margin	29.1	28.4	29.4	30.3
FFO leverage (x)	4.8	4.6	4.6	4.3
FFO interest coverage (x)	5.0	4.9	4.8	4.7

FFO – Funds from operations

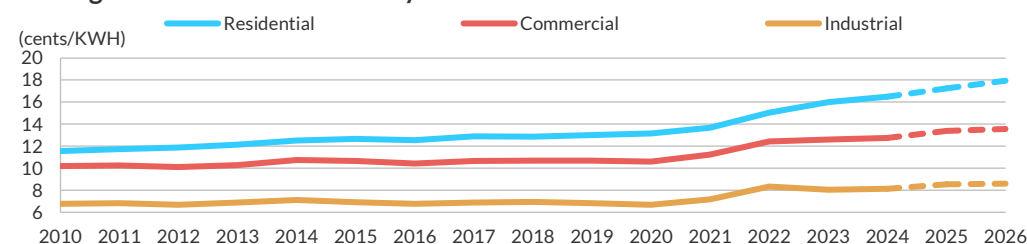
Source: Fitch Ratings, Fitch Solutions

U.S. Retail Sales of Electricity



Source: The U.S. Energy Information Administration

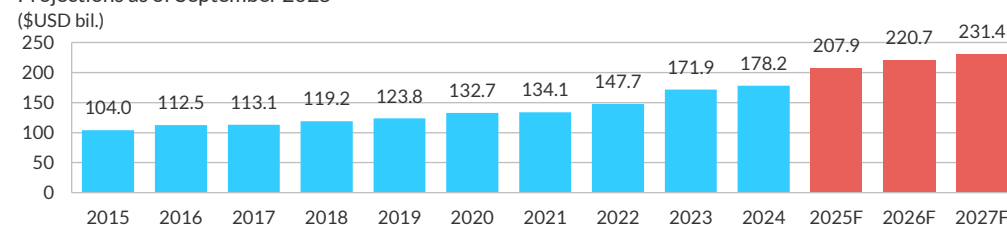
Average Retail Price of Electricity



Source: The U.S. Energy Information Administration

Total Capex of U.S. Investor Owned Electric Utilities

Projections as of September 2025



Source: Edison Electric Institute

UPG Key Sector Issues

Data Center Growth

Data center growth is expected to modestly increase commercial margins for electric utilities. The high load factors of these customers can make the system more efficient and help keep rates affordable across all retail classes. However, given the uncertainty around both the quantum and timing of load forecasts from data centers, there is risk that utilities may overestimate demand and overbuild. Long-term commitments from data centers will be key, along with alternative rate designs, to ensure the cost of service to connect these large loads is fairly allocated across all customers.

Wildfire Legislation

In 2025, several jurisdictions, including Arizona, California, Montana and Texas, enacted constructive legislation to combat wildfire risk. California has the most comprehensive plan to manage wildfire risk but is reviewing its approach to wildfire mitigation following destructive wildfires in Los Angeles County earlier this year. Other jurisdictions enacted legislation designed to protect their constituents, including utilities, from wildfire risk based on local conditions and potential threats.

Holdco Leverage Improving

Median funds from operations (FFO) leverage for parent holding companies is expected to improve in 2025, marking a second consecutive year of improvement in FFO leverage, from elevated levels in the prior four years (2020–2023). FFO leverage improvement is being driven by a reduction in holding company debt, with proceeds from the sale of non-core assets, minority interest in utility subsidiaries, equity issuance and rate increases. Fitch expects median FFO leverage for utility parent companies to average 5.3x per year during 2025–2027.

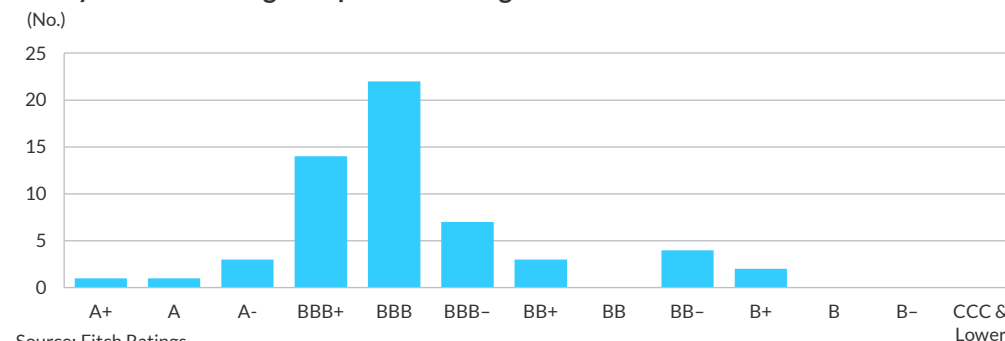
Opco Leverage

Fitch expects median FFO leverage for the operating subsidiaries to remain flat in 2026, driven by generally balanced jurisdictional rate regulation and large investment programs. Median FFO leverage for the integrated utilities is anticipated to remain unchanged in 2025, and Fitch expects it to be stable over the forecast period. Median FFO leverage for transmission and distribution utilities, which include gas-distribution utilities, declined slightly in 2025. Fitch expects leverage to remain flat in the next 12 to 24 months.

Additional Key Sector Issues

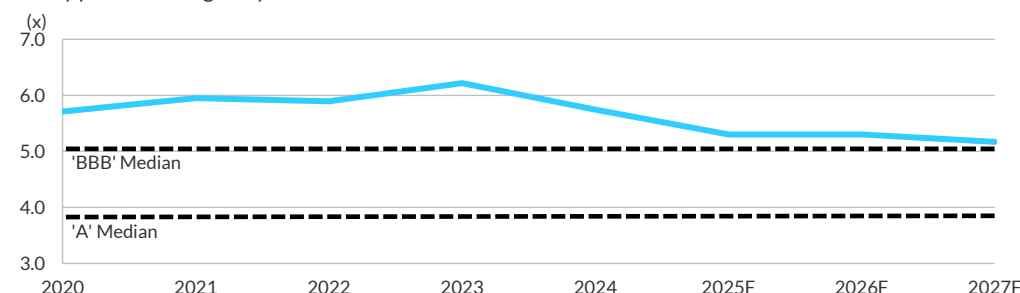
- Intensifying storm activity and grid resilience initiatives.
- Cost containment efforts and supply chain pressures.

Utility Parent Holding Companies - Rating Distribution

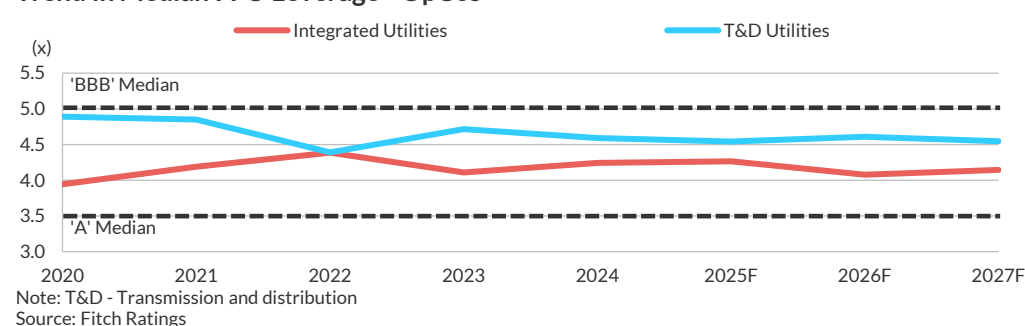


Trend in Median FFO Leverage - HoldCos

Utility parent holding companies



Trend in Median FFO Leverage - OpCos



Power Project Finance

Demand Growth and Investment

Rapid data center demand growth is likely to be met through investment in a mix of traditional and renewable resources to balance reliable power supply with sustainability. Successful integration of renewables is crucial for stable grid operation to mitigate rising energy costs. The integration is expected to include meaningful deployment of storage technologies and investment in transmission infrastructure. Growing demand has slowed coal plant retirements and supports the development of flexible and inflexible resources, including natural gas-fired and nuclear generation. In addition, enactment of federal tax legislation in July 2025 could spur investment ahead of expiration of investment tax credits (ITC) and production tax credits (PTC) by YE 27.

2025 Federal Legislation Impact

The 2025 Budget Reconciliation Act effectively phases out ITCs and PTCs for renewables projects, requiring projects to either begin construction on or before July 4, 2026, or be placed in service by December 31, 2027, to qualify for the tax credits. While the phase out of tax credits could spur a rush to accelerate wind and solar project construction, federal regulatory headwinds present challenges. For example, Foreign Entity of Concern rules, as part of the 2025 Budget Reconciliation Act, limit the use of Chinese manufactured technologies in U.S. projects that benefit from tax credit incentives. The legislation also eliminates the five-percent safe harbor rule, which is likely to result in greater uncertainty around qualification for tax incentives for sponsors and tax equity investors.

Power Project Cost Pressures

Cost pressures are tightening budgets, elevating North American power project completion risk, and prompting negative rating actions for operational projects, particularly where revenue contracts lack sufficient inflation indexation to offset prolonged cost inflation. Higher insurance costs and property taxes have contributed to growing expenses, and OEM manufacturing capacity constraints and a growing backlog have resulted in difficulties for projects in securing equipment and spare parts. For greenfield projects, recent tariffs have introduced significant cost pressures and uncertainty into the U.S. energy markets, complicating long-term industry planning and potentially slowing short-term growth. The energy sector, particularly new-build gas plants, battery storage and renewables, is heavily impacted due to reliance on imported components now subject to tariff uncertainty. While development activity may slow as sponsors seek clarity on tariff policy, projects already under construction are largely insulated.

Additional Key Sector Issues

- Incremental federal/regulatory policy impact on project development incentives.
- Rise of behind-the-meter co-located power sources to support data centers.

Core Credit Drivers: North American Energy Infrastructure

Subsectors	Revenues				Operations			Financial		
	Resource Performance	Energy Pricing	Regulatory and Political Environment	Counter-party Risk	Fuel Pricing	Operating Costs	Major Maintenance Needs	Coverages	Cost of Debt	Financial Reserves and Liquidity
Power (Non-Renewables)	N.A.	↗	↔	↔	↔	↘	↘	↔	↔	↔
Renewables	↔	↗	↘	↔	N.A.	↘	↘	↔	↔	↔
Oil & Gas	N.A.	↔	↗	↘	↔	↘	↘	↔	↔	↔

N.A. – Not a material driver of credit quality in sector. ↗ Improving: moderate relevance.
↔ Neutral. ↘ Deteriorating: moderate relevance.
Source: Fitch Ratings

Appendix

North American Utilities, Power & Gas - Issuer Level Forecasts

Issuer	IDR	Outlook	Net Revenue Growth (%)				FFO Margin (%)				FFO Leverage (x)				FFO Interest Coverage (x)			
			2024A	2025F	2026F	2027F	2024A	2025F	2026F	2027F	2024A	2025F	2026F	2027F	2024A	2025F	2026F	2027F
Algonquin Power & Utilities Corp.	BBB	Stable	-14.0	-17.0	9.3	1.8	25.3	36.0	34.5	36.8	5.6	5.4	5.3	5.5	2.3	3.1	3.3	3.3
American Electric Power Company, Inc.	BBB	Stable	3.9	8.6	12.8	5.9	30.7	27.5	28.0	31.7	5.5	5.8	5.3	5.2	4.1	3.7	4.0	4.3
AVANGRID, Inc.	BBB+	Stable	4.7	8.3	7.0	5.6	21.2	24.6	25.5	25.5	6.0	4.8	5.1	5.4	3.7	4.3	4.5	4.3
CenterPoint Energy, Inc.	BBB	Stable	-0.9	10.3	8.7	4.8	31.1	29.3	30.1	30.9	5.9	5.3	5.4	5.4	4.2	3.9	3.8	3.5
CMS Energy Corporation	BBB	Stable	-0.8	8.7	6.2	5.7	29.4	27.2	27.9	29.4	5.4	5.6	5.6	5.6	4.3	3.9	3.7	3.7
Consolidated Edison, Inc.	BBB+	Stable	4.0	7.1	9.9	7.2	27.9	29.6	28.2	27.8	5.3	4.8	5.0	5.1	5.2	4.9	4.5	4.2
DTE Energy Company	BBB	Stable	-2.3	7.7	6.3	6.3	27.6	26.4	27.3	28.0	5.1	5.5	5.3	5.4	4.8	4.7	4.5	4.4
Edison International	BBB	Stable	8.3	8.7	-2.3	6.7	21.5	38.6	30.5	33.8	6.9	4.0	5.1	4.5	3.3	4.7	3.7	4.1
Emera Incorporated	BBB	Stable	-4.8	12.0	-0.2	4.6	27.3	28.1	28.9	29.5	6.7	5.8	5.9	5.9	2.8	3.2	3.2	3.1
Eversource Energy	BBB	Negative	-0.1	11.2	7.3	4.8	30.6	29.5	28.2	27.6	6.4	5.6	5.8	5.9	4.3	4.1	3.9	3.7
FirstEnergy Corp.	BBB	Stable	4.7	10.7	5.1	5.6	20.3	21.4	21.7	21.0	5.9	5.3	5.2	5.5	3.5	3.9	3.7	3.5
Hawaiian Electric Industries, Inc.	B+	Positive	-12.6	1.8	1.6	3.3	8.8	9.6	-1.1	0.4	7.5	5.5	22.9	14.8	3.7	3.4	0.8	1.1
NextEra Energy, Inc.	A-	Stable	-12.0	11.5	2.2	9.4	47.8	47.9	49.2	47.5	5.4	5.0	5.3	5.2	4.8	3.9	3.6	3.4
NiSource Inc.	BBB	Stable	-0.9	-11.3	10.3	8.0	33.1	41.9	44.5	48.0	5.8	5.7	5.4	5.2	4.6	3.9	3.7	3.7
NorthWestern Corporation	BBB	Stable	6.9	4.0	2.3	1.6	30.8	29.7	29.6	30.0	4.9	5.0	5.1	5.1	5.0	4.5	4.4	4.4
OGE Energy Corp.	BBB+	Stable	11.6	16.1	4.5	4.6	32.1	30.5	32.9	33.6	4.5	4.7	4.5	4.3	4.6	5.2	5.2	5.1
Otter Tail Corporation	BBB	Stable	-1.4	-0.6	-2.2	3.9	30.9	29.3	25.5	24.9	2.3	2.5	2.9	3.1	11.4	10.0	8.1	7.3
PG&E Corporation	BBB-	Stable	-0.3	3.0	3.6	3.6	32.2	33.2	35.3	32.9	4.6	4.8	4.6	4.3	4.1	4.3	4.1	3.6
Pinnacle West Capital Corporation	BBB	Stable	9.1	2.1	7.6	11.4	31.8	30.8	28.8	30.1	4.8	5.2	5.5	5.1	5.5	4.7	4.0	4.0
Puget Energy Inc.	BBB-	Stable	0.8	13.8	3.5	6.7	17.5	22.2	22.5	21.9	6.7	5.4	5.3	5.5	3.1	3.9	3.9	3.8
Sempra Energy	BBB+	Stable	-21.1	10.5	-8.3	6.2	35.3	33.2	37.9	38.0	5.1	4.9	4.1	4.4	3.8	3.2	2.9	3.1
The Southern Company	BBB+	Stable	5.8	11.5	3.9	7.2	30.5	30.8	32.5	33.4	5.7	5.6	5.2	5.1	4.1	4.2	3.8	3.9
WEC Energy Group, Inc.	BBB+	Stable	-3.3	14.0	6.4	6.6	38.2	35.4	36.3	37.2	4.8	5.1	5.1	5.2	5.1	4.7	4.8	4.7
Xcel Energy Inc.	BBB+	Stable	-5.4	10.6	10.3	8.8	35.1	37.5	41.2	43.9	5.0	5.0	4.9	4.9	5.0	5.6	6.8	7.8
Universe Medians			-0.6	8.7	5.7	5.8	30.7	29.7	29.3	30.5	5.5	5.2	5.3	5.2	4.2	4.1	3.9	3.9

Source: Fitch Ratings, Fitch Solutions

Sector outlooks are a general forward-looking assessment of the underlying operational and business conditions of the sector compared to the previous calendar year. A 'neutral' outlook is an assessment that these conditions will remain mostly unchanged. Sector outlooks are distinct from Rating Outlooks.

Outlooks and Related Research

[2026 Outlooks](#)

[Global Economic Outlook – December 2025 \(December 2025\)](#)

[Global Corporates Sector Forecasts Monitor – September 2025 \(September 2025\)](#)

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