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U.S. Public Power Acclimating to a Calmer 'New Normal' in 2024.

Fitch Ratings-Austin/New York-07 December 2023: U.S. public power utilities are entering a period of relative calm in the coming year, according to Fitch Ratings in its 2024 Outlook report.

Fitch is changing its sector outlook for public power to neutral for 2024 from deteriorating in 2023. While operating costs are expected to be modestly higher, the worst appears to be over. Easing inflationary headwinds have led a new normal where utilities have to account for higher across-th--board costs which, in many cases, could translate to rate increases.

“Natural gas costs have stabilized at lower levels, though slower economic growth and persistently high interest rates could contribute to lackluster operating performance,” said Senior Director Kathy Masterson. “Capacity constraints and proposed environmental rules are increasing long-term concerns that could dampen performance over time.”

Longer term, risks related to generating capacity constraints and energy shortfalls are growing, raising the spectre of higher wholesale energy prices and “rolling blackouts”. Extreme temperatures together with burgeoning data and AI-related load will likely drive record peak demand for electricity, while drought conditions, plant retirements and wildfire risks could challenge resource availability.

Pressures related to wage growth, regional labor shortages and protecting systems against cyberattacks and the effects of climate change, appear more manageable. That said, “a breach of critical utility assets from cyberattacks that halt service or require ransomware payments could negatively affect utility financial performance and could result in widespread public and private sector shutdowns,” said Masterson.

Fitch’s ‘U.S. Public Power and Electric Cooperatives Outlook 2024’ report is available at ‘www.fitchratings.com’.

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