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Fitch: Performance Dims As Expected for U.S. Public Power Utilities

Fitch Ratings-New York-20 June 2023: A decade of de-leveraging has officially come to an end for U.S. public power utilities, according to Fitch Ratings in its latest peer review for the sector.

Leverage metrics for U.S. public power utilities weakened meaningfully, effectively reversing the trend of deleveraging that began over 10 years ago. Coverage of full obligations also weakened for retail systems, wholesale systems and the portfolio overall, ending an upward trend that began as early as 2015 for certain systems.

"Outlooks for public power utilities by and large will remain stable thanks to strong financial cushions and independent rate-setting authority, though the performance declines are noteworthy and warrant closer scrutiny," said Fitch Managing Director Dennis Pidherny. "Utilities are now contending with higher costs and weaker liquidity, with cash holdings declining in order to meet higher operating expenses, capital spending and working capital requirements. Cash on hand medians are also down for both retail and wholesale systems to levels not seen in over eight years."

The median capex-to-depreciation ratio for wholesale systems was 76%, the seventh time in nine years that median capex-to-depreciation remained at or below 100%, suggesting continuance of a low reinvestment cycle.

This year's results are in line with Fitch's outlook for U.S. public power utilities, which the rating agency revised to 'deteriorating' late last year. The sector is contending with a more challenging environment and the likelihood of a broader economic recession, which Fitch economists are projecting to take hold later this year.

Fitch's 'U.S. Public Power — Peer Review' is available at 'www.fitchratings.com'.

Contact:

Dennis M. Pidherny
Managing Director
+1-212-908-0738
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Kathy Masterson
Senior Director, U.S. Public Power Group Head
+1-512-215-3730
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330
Austin, TX 78746

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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