Electric Industry Update

2019 Spring Accounting Conference

Mark Agnew, EEI
Electric Industry Update

- Financial State of the Industry
- Tax Reform
- Clean Energy Transformation
- ESG/Sustainability and Natural Gas Sustainability Initiatives
- Electric Transportation
- Grid Modernization
Financial State of the Industry
Industry Capital Expenditures

Notes: Total company spending of U.S. Investor-Owned Electric Utilities, consolidated at the parent or appropriate holding company. Projections based on publicly available information and extrapolated for companies reporting fewer than three projected years (0.1% and 5.7% of the industry for 2019 and 2020, respectively).

Source: EEI Finance Department, company reports, S&P Global Market Intelligence (October 2018).
Projected Functional CapEx

Notes: Total company functional spending of U.S. Investor-Owned Electric Utilities may not sum to 100% due to rounding error. Projections based on publicly available information and extrapolated for companies not reporting functional detail (1.3%, 1.3%, 1.3%, 0.7%, 0.9%, 0.8% of the industry for 2013, 2014, 2015, 2016, 2017, 2018 respectively).

Source: EEI Finance Department, company reports, S&P Global Market Intelligence (August 2017).
Shift to More Regulated Strategies

Note: Based on yearend assets.
Source: EEI Finance Department.
US Electric IOUs Rating History
2003 – 2017

Average Industry Credit Rating is Increasing

Source: EEI Finance Department.
# Financial Highlights

as of 12-31-2018

## Stock Performance

<table>
<thead>
<tr>
<th></th>
<th>EEI Index</th>
<th>DJIA</th>
<th>S&amp;P 500</th>
<th>NASDAQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-year</td>
<td>18.7%</td>
<td>10.1%</td>
<td>9.5%</td>
<td>9.4%</td>
</tr>
<tr>
<td>3-year</td>
<td>29.5%</td>
<td>57.6%</td>
<td>46.3%</td>
<td>58.7%</td>
</tr>
<tr>
<td>5-year</td>
<td>69.1%</td>
<td>77.9%</td>
<td>67.8%</td>
<td>84.1%</td>
</tr>
<tr>
<td>10-year</td>
<td>239.5%</td>
<td>339.9%</td>
<td>338.1%</td>
<td>405.7%</td>
</tr>
</tbody>
</table>

## Dividends

- Yield = 3.4%
- 41 of 42 companies currently paying a dividend
- 39 of 42 companies increased dividend rate in 2018

## Credit Ratings

- Strengthening ‘BBB+’ Average
- Outlook 77% Stable or Positive

Note: Stock returns are total returns, ending 3-31-2019, (i.e., include dividends) except for NASDAQ, which is price appreciation only.

Source: EEI Finance Department, S&P Global Market Intelligence.
Rate Review Activity: Volume and Lag
U.S. Investor-Owned Electric Utilities

Number of Electric Rate Cases Filed (Trailing 12 Months)

Average Regulatory Lag (Quarterly)*

*Average Regulatory Lag is defined here as the amount of time between the filing of and ruling on a rate case. This does not take into consideration the preparation time leading up to an initial filing. MRQ = Most Recent Quarter. 4Q Avg = Trailing four-quarter average.

Source: S&P Global Market Intelligence / Regulatory Research Associates (RRA), EEI Finance Department, EEI Rate Department.
Rate Review Activity: Average ROEs
Requested ROE vs. 10-Year US Treasury Yield

*Requested ROE represents the equal-weight average of all electric cases filed during the indicated period. 10-Year U.S. Treasury Yield is the average of daily reported yields during each period.

Source: S&P Global Market Intelligence / Regulatory Research Associates (RRA), EEI Finance Department, EEI Rate Department.
Status of M&A Activity
U.S. Investor Owned Electric Companies, 1995-2018

Number of Transactions

Avg Market Cap ($ Billion)
- $20 B
- $18 B
- $16 B
- $14 B
- $12 B
- $10 B
- $8 B
- $6 B
- $4 B
- $2 B
- $0 B

Completed (116 total)
Announced (146 total)
Withdrawn (31 total)
Avg Market Cap per Company ($B)

Source: S&P Global Market Intelligence, EEI Finance Department.
Tax Reform
Tax Reform Results

- Reduces the Corporate Tax Rate
- Maintains Interest Deductibility for Corporate Debt
- Maintains Deductibility for State & Local Taxes
- Maintains Tax Normalization and Addresses Excess Deferred Taxes (EDT)
- Keeps Dividend Tax Rates Low and on Par with Capital Gains Tax Rates
Tax Reform Implementation
Business Interest Deductibility

- Industry exception provided as part of the Tax Cuts & Jobs Act
- Details being worked out in the implementation phase
  - Business Interest Deductibility - holding company debt
- EEI files industry comment letter with Treasury in March 2019
  - In response to Treasury’s proposed regulations on Section 163(j)
- Potential release of Final Treasury regulations in 2019
Clean Energy Transformation
Mix of Resources Used To Generate Electricity Has Changed Dramatically 2008–2018

2008 National Energy Resource Mix
- 48.2% Coal
- 21.4% Natural Gas
- 19.6% Nuclear
- 6.2% Hydro
- 3.1% Non-Hydro Renewables
- 1.1% Fuel Oil
- 0.4% Other

2018 National Energy Resource Mix (preliminary)
- 34.8% Natural Gas
- 19.1% Nuclear
- 10.8% Non-Hydro Renewables
- 6.8% Hydro
- 0.6% Fuel Oil
- 0.4% Other
- 27.5% Coal

Source: Department of Energy, Energy Information Administration.
New Capacity Is Mostly Natural Gas, Wind, Solar; Solar and Wind Production Is Increasing

More than 1/3 of U.S. electricity comes from carbon-free sources

As of 2017, industry CO₂ emissions were 28 percent below 2005 levels

Trajectory is expected to continue based on current trends

Electric Companies Are Leading On Clean Energy

Changing U.S. Energy Mix

>1/3 CARBON-FREE

>1/2 Of the Industry’s New Electricity Generation Capacity Each Year Is WIND AND SOLAR ENERGY

Cutting Emissions

$CO_2$ ↓ 28% BELOW 2005 LEVELS AS OF 2017

NOx ↓ 84% BETWEEN 1990–2017

SO2 ↓ 92% BETWEEN 1990–2017

Increasing Investments

$100 Billion+ PER YEAR IN SMARTER ENERGY INFRASTRUCTURE

Expanding Access to EVs

95,000+ CHARGING STATIONS NATIONWIDE

Providing

69% of the SOLAR ENERGY in the Country

Using

90%+ OF ALL U.S. ENERGY STORAGE
ESG and Natural Gas Sustainability Initiatives
Level-setting on Environment, Social and Governance (ESG)

**Environmental**
- GHG & energy Use
- Air quality
- Coal ash
- Water stewardship
- Energy efficiency
- Supply-chain impacts

**Social**
- Community impacts
- Economic contributions
- Health & Safety
- Grid reliability
- Lobbying

**Governance**
- Board diversity
- Board experience
- Independence
- Incentives & compensation
- Tax strategy

Example ESG topics

Source: PwC U.S. Power & Utilities team
Regulated Electric Companies are Different

**Sector Beta vs. S&P 500**

- **Low** Movement Relative to Market
- **High**

Source: AltaVista Research LLC (June 2017).

**US Electric IOUs Credit Rating History**

- A or higher
- A-
- BBB+
- BBB
- BBB-
- Below BBB-

**Gender Diversity in the Boardroom**

- Male CEOs: 77.8%
- Female CEOs: 22.2%

**Cleaner National Fuel Mix**

- 2007
- 2017

Source: Department of Energy, Energy Information Administration. Note: Chart percentages are based on net generation data.
EEI’s ESG/Sustainability Steering Committee identified **5 areas of focus** based on discussions with investors to include in the Version 1 Template

### Qualitative

<table>
<thead>
<tr>
<th>ESG/Sustainability Governance</th>
<th>Management and oversight of ESG/Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG/Sustainability Strategy</td>
<td>Practices, programs, and initiatives designed to support the company’s transition to a lower carbon and increasingly sustainable energy future</td>
</tr>
</tbody>
</table>

### Quantitative

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>An Excel-based data reporting template that is customized for electric companies to include metrics on owned and/or purchased generation data by technology/resource type, as well as other metrics related to capital investments, emissions, and natural and human resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions Resources</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** data for these areas should include as much historical, current, and forward-looking information as is appropriate.

### Version 2 – LDC Metrics

- EEI and AGA have engaged investors to seek guidance on relevant ESG metrics for LDCs.
- A group of AGA pilot companies are currently publishing gas LDC metrics in parallel with the Version 1 template.
- These LDC metrics will be fully incorporated into Version 2 to report 2018 data later this year.
Natural Gas Sustainability Initiative (NGSI)

An overarching framework to **recognize and advance the innovative, voluntary sustainability programs** from the wellhead to the burner tip.

NGSI enables the natural gas industry to **measure, disclose, and recognize** industry-wide progress and innovation on key sustainability metrics.
NGSI Summary

Recognizing voluntary actions and sustainability commitments from industry leaders across the natural gas value chain

Next Steps
- Engage stakeholders
- Incorporate feedback into NGSI design
Electric Transportation
Electric Transportation: Growing Momentum

- **EVs on the road**
  - >1 million

- **EV sales increase**, 2017 to 2018
  - +81%

- **EV availability** in 2018
  - 41 models
  - 21 brands

- **Battery price**
  - -85%

Electric Transportation Trends

**Today**

There are more than **1 million** electric vehicles on U.S. roads.

**By 2030**

The number of EVs on the road is projected to reach **18.7 million**.

~**9.6 million** charge ports will be needed to support this number.
CO₂ Emissions:
Electric Power and Transportation Sectors

Electric Transportation

• The 2019 legislative sessions have been busy with over 145 bills related to electric transportation.

• The most prevalent types of legislation include: imposing of additional fees on electric vehicle drivers; appropriating funds for EV infrastructure deployment; and mandates related to building codes, EV charging parking allocation, and EV adoption.

• On April 9, 2019, the Colorado legislature passed HB 1198 which creates a continuously funded EV grant program to offset the costs of installing EV charging stations.
Grid Modernization
Grid Modernization
State Regulatory & Legislative Activity 2018

Note: Activities related to DG, storage, EVs, cyber/physical security, and rate reviews are extensive enough that EEI tracks them separately.
Grid Modernization Trends

Grid Mod Legislative & Regulatory Activity by Type (2018)

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of bills or proceedings (regulatory and legislative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Access &amp; Data Sharing</td>
<td></td>
</tr>
<tr>
<td>Rate Design &amp; Reform</td>
<td></td>
</tr>
<tr>
<td>Multi-Element Grid Mod</td>
<td></td>
</tr>
<tr>
<td>Regulatory Reform</td>
<td></td>
</tr>
<tr>
<td>Dist. System Planning</td>
<td></td>
</tr>
<tr>
<td>Grid Mod Review/Study</td>
<td></td>
</tr>
</tbody>
</table>

Trending

- Decisions on data
- Transformative rate design
- Regulatory reform
- Mix-and-match grid mod
Examples of EEI Finance Public Reports & Data
Items updated quarterly unless otherwise indicated

- **Financial Review (annual)**
  Incorporates all of the following reports and additional industry material

- **Stock Performance**
  Financial market performance (Price, TSR, etc.) of proprietary EEI member index and equity analyst opinions

- **Credit Ratings**
  Holding company ratings & rating agency activity

- **Dividends**
  Dividend-related actions of EEI members and relevant issues

- **Rate Case Summary**
  Regulatory filings during the quarter and recent / current trends

- **Industry Consolidated Financial Statements**
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement

EEI Finance Contacts

Richard McMahon
Senior Vice President, Energy Supply & Finance
RMcMahon@eei.org | 202-508-5574

Mark Agnew
Senior Director, Financial Analysis
MAgnew@eei.org | 202-508-5049

Michael Buckley
Senior Manager, Financial Analysis
MBuckley@eei.org | 202-508-5614

Bill Pfister
Senior Director, Business Analytics
BPfister@eei.org | 202-508-5531

Steve Frauenheim
Senior Manager, Business Analytics
SFrauenheim@eei.org | 202-508-5580

Devin James
Manager, Investor Relations & ESG
DJames@eei.org | 202-508-5057

www.EEI.org/QFU