



**EDISON ELECTRIC
INSTITUTE**

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Dividends

**Q3 2009
FINANCIAL UPDATE**

QUARTERLY REPORT
OF THE U.S. SHAREHOLDER-OWNED
ELECTRIC UTILITY INDUSTRY



About EEI

The Edison Electric Institute is the association of U.S. shareholder-owned electric companies. Our members serve 95% of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70% of the U.S. electric power industry. We also have 79 international electric companies as Affiliate members and more than 190 industry suppliers and related organizations as Associate members.

About EEI's Quarterly Financial Updates

EEI's quarterly financial updates present industry trend analyses and financial data covering 69 U.S. shareholder-owned electric utility companies. These 69 companies include 58 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and eleven electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

Dividends	Rate Case Summary
Stock Performance	SEC Financial Statements (Holding Companies)
Credit Ratings	FERC Financial Statements (Regulated Utilities)
Construction	Fuel

For EEI Member Companies

The EEI Finance and Accounting Division is developing current year and historical data sets that cover a wide range of industry financial and operating metrics. We look forward to serving as a resource for member companies who wish to produce customized industry financial data and trend analyses for use in:

- Investor relations studies and presentations
- Internal company presentations
- Performance benchmarking
- Peer group analyses
- Annual and quarterly reports to shareholders

We Welcome Your Feedback

EEI is interested in ensuring that our financial publications and industry data sets best address the needs of member companies and the financial community. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

44th EEI Financial Conference
November 1-4, 2009
Westin Diplomat Resort & Spa
Hollywood, Florida

EEI International Utility Conference
March 14-16, 2010
London Hilton on Park Lane
London, United Kingdom

For more information about EEI Finance Meetings, please contact Debra Henry, (202) 508-5496, dhenry@eei.org

The 69 U.S. Shareholder-Owned Electric Utilities

The companies listed below all serve a regulated distribution territory. Other utilities, such as transmission provider ITC Holdings, are not shown below because they do not serve a regulated distribution territory. However, their financial information is included in relevant EEI data sets, such as transmission-related construction spending.

Allegheny Energy, Inc. (AYE)
ALLETE, Inc. (ALE)
Alliant Energy Corporation (LNT)
Ameren Corporation (AEE)
American Electric Power Company, Inc. (AEP)
Avista Corporation (AVA)
Black Hills Corporation (BKH)
CenterPoint Energy, Inc. (CNP)
Central Vermont Public Service Corporation (CV)
CH Energy Group, Inc. (CHG)
Cleco Corporation (CNL)
CMS Energy Corporation (CMS)
Consolidated Edison, Inc. (ED)
Constellation Energy Group, Inc. (CEG)
Dominion Resources, Inc. (D)
DPL, Inc. (DPL)
DTE Energy Company (DTE)
Duke Energy Corporation (DUK)
Duquesne Light Holdings, Inc.
Edison International (EIX)
El Paso Electric Company (EE)
Empire District Electric Company (EDE)
Energy East Corporation
Energy Future Holdings Corp. (formerly TXU Corp.)
Energy Corporation (ETR)
Exelon Corporation (EXC)
FirstEnergy Corp. (FE)
FPL Group, Inc. (FPL)

Great Plains Energy Incorporated (GXP)
Green Mountain Power Corporation
Hawaiian Electric Industries, Inc. (HE)
IDACORP, Inc. (IDA)
Integrus Energy Group, Inc. (TEG)
IPALCO Enterprises, Inc.
Kentucky Utilities
KeySpan Corporation
Louisville Gas and Electric
Maine & Maritimes Corporation (MAM)
MDU Resources Group, Inc. (MDU)
MGE Energy, Inc. (MGEE)
MidAmerican Energy Holdings Company
Niagra Mohawk Power Corporation
NiSource Inc. (NI)
Northeast Utilities (NU)
NorthWestern Corporation (NWE)
NSTAR (NST)
NV Energy, Inc. (NVE)
OGE Energy Corp. (OGE)
Otter Tail Corporation (OTTR)
Pepco Holdings, Inc. (POM)
PG&E Corporation (PCG)
Pinnacle West Capital Corporation (PNW)
PNM Resources, Inc. (PNM)
Portland General Electric Company (POR)
PPL Corporation (PPL)
Progress Energy (PGN)
Public Service Enterprise Group Inc. (PEG)

*Puget Energy, Inc.**
SCANA Corporation (SCG)
Sempra Energy (SRE)
Southern Company (SO)
TECO Energy, Inc. (TE)
UIL Holdings Corporation (UIL)
UniSource Energy Corporation (UNS)
Unitil Corporation (UTL)
Vectren Corporation (VVC)
Westar Energy, Inc. (WR)
Wisconsin Energy Corporation (WEC)
Xcel Energy, Inc. (XEL)

* Puget Energy was acquired by Puget Energy LLC on February 6, 2009. Puget Energy LLC was formed by a group of infrastructure investors led by the Macquarie Group.

Companies Listed by Category

(as of 12/31/08)

Please refer to the Quarterly Financial Updates webpage for previous years' lists.

Given the diversity of utility holding company corporate strategies, no single company categorization approach will be useful for all EEI members and utility industry analysts. Nevertheless, we believe the following classification provides an informative framework for tracking financial trends and the capital markets' response to business strategies as companies depart from the traditional regulated utility model.

Regulated	80%+ of total assets are regulated
Mostly Regulated	50% to 80% of total assets are regulated
Diversified	Less than 50% of total assets are regulated

Categorization of the 58 publicly traded utility holding companies is based on year-end business segmentation data presented in 10Ks, supplemented by discussions with company IR departments. Categorization of the 11 non-publicly traded companies (*shown in italics*) is based on estimates derived from FERC Form 1 data and information provided by parent company IR departments.

The EEI Finance and Accounting Division continues to evaluate our approach to company categorization and business segmentation. In addition, we can produce customized categorization and peer group analyses in response to member company requests. We welcome comments, suggestions and feedback from EEI member companies and the financial community.

Regulated (44 of 69)

ALLETE, Inc.
 Alliant Energy Corporation
 Ameren Corporation
 American Electric Power Company, Inc.
 Avista Corporation
 Central Vermont Public Service Corporation
 CH Energy Group, Inc.
 Cleco Corporation
 CMS Energy Corporation
 Consolidated Edison, Inc.
 DPL, Inc.
 DTE Energy Company
Duquesne Light Holdings, Inc.
 El Paso Electric Company
 Empire District Electric Company
Energy East Corporation
 Great Plains Energy Incorporated
Green Mountain Power Corporation
 IDACORP, Inc.
IPALCO Enterprises, Inc.
Kentucky Utilities
KeySpan Corporation
Louisville Gas and Electric
 Maine & Maritimes Corporation
Niagara Mohawk Power Corporation
 Northeast Utilities

NorthWestern Energy
 NSTAR
 NV Energy, Inc.
 PG&E Corporation
 Pinnacle West Capital Corporation
 PNM Resources, Inc.
 Portland General Electric Company
 Progress Energy
Puget Energy, Inc.
 Southern Company
 TECO Energy, Inc.
 UIL Holdings Corporation
 UniSource Energy Corporation
 Unitil Corporation
 Vectren Corporation
 Westar Energy, Inc.
 Wisconsin Energy Corporation
 Xcel Energy, Inc.

Mostly Regulated (19 of 69)

Black Hills Corporation
 CenterPoint Energy, Inc.
 Dominion Resources, Inc.
 Duke Energy Corporation
 Edison International
 Entergy Corporation
 Exelon Corporation
 First Energy Corp.

FPL Group, Inc.
 Integrys Energy Group
 MGE Energy, Inc.
MidAmerican Energy Holdings
 NiSource Inc.
 OGE Energy Corp.
 Otter Tail Corporation
 Pepco Holdings, Inc.
 Public Service Enterprise Group, Inc.
 SCANA Corporation
 Sempra Energy

Diversified (6 of 69)

Allegheny Energy, Inc.
 Constellation Energy Group, Inc.
Energy Future Holdings
 Hawaiian Electric Industries, Inc.
 MDU Resources Group, Inc.
 PPL Corporation

Note: Based on assets at 12/31/08

Q3 2009 Dividends

HIGHLIGHTS

■ Utilities extended a five-year trend of widespread dividend increases during the first nine months of 2009, despite three dividend cuts in February. The period's 24 increases, however, were below the 27-33 range for the same period in each of the past four years.

■ At September 30, 2009, only one of the 58 publicly traded companies in the EEI Index (1.7%) was not paying a common stock dividend. This is the lowest percentage in our data set (back to 1988), and the only time when less than two companies were not paying a dividend.

■ The economic downturn, low stock prices and a desire to improve cash flow were among reasons given for the industry's three dividend cuts earlier this year.

■ The average dividend increase during the first nine months of 2009 was 6.9%, with a range of 0.9% to 38.9%. CMS Energy, UniSource Energy and Avista posted the largest percent increases.

COMMENTARY

Dividend Increases Continue in 2009

Only one of the industry's 58 publicly traded companies raised their dividend during the third quarter (typically an inactive quarter for dividend changes), yet 24 companies raised or reinstated their dividend during the first nine months of the year. While a strong number, 24 is down slightly from 28 in 2008, 33 in 2007, 29 in 2006 and 27 in 2005.

Dividend increases in recent years have been supported by reduced dividend tax rates and a period of generally strong

I. Sector Comparison, Dividend Payout Ratio

For 12-month period ending 6/30/09

Sector	Payout Ratio (%)
EEI Index Companies	67.5%
Materials	63.8%
Utilities	55.0%
Industrial	48.5%
Consumer Staples	43.0%
Financial	41.7%
Energy	40.6%
Consumer Discretionary	32.9%
Technology	30.5%
Health Care	26.2%

Note: EEI Index Companies' payout ratio based on LTM income before nonrecurring and extraordinary items./ Source: AltaVista Research, SNL Financial, EEI Finance Department

II. Sector Comparison, Dividend Yield

at 9/30/09

Sector	Yield (%)
EEI Index Companies	4.9%
Utilities	4.3%
Consumer Staples	3.0%
Industrial	2.8%
Energy	2.2%
Health Care	2.1%
Materials	1.9%
Financial	1.6%
Technology	1.6%
Consumer Discretionary	1.5%

Source: AltaVista Research, SNL Financial, EEI Finance Department

financial performance. In fact, the 43 companies that raised or reinstated their dividend during full-year 2007 were the most since 1990.

At September 30, 2009, only one of the 58 publicly traded companies in the EEI Index (1.7%) was not paying a

III. Dividend Patterns 1993–2009

	U.S. Shareholder-Owned Electric Utilities							Dividend	
	Raised	No Change	Lowered	Omitted	Reinstated	Not Paying	Total	Payout Ratio*	
1993	65	29	1	0	1	4	100	80.5%	
1994	54	37	6	0	0	3	100	79.8%	
1995	52	40	3	0	0	3	98	75.3%	
1996	48	44	2	1	1	2	98	70.7%	
1997	40	45	6	2	0	3	96	84.2%	
1998	40	37	7	0	0	5	89	82.1%	
1999	29	45	4	0	3	2	83	74.9%	
2000	26	39	3	1	0	2	71	63.9%	
2001	21	40	3	2	0	3	69	64.1%	
2002	26	27	6	3	0	3	65	67.5%	
2003	26	24	7	2	1	5	65	63.7%	
2004	35	22	1	0	0	7	65	67.9%	
2005	34	22	1	1	2	5	65	66.5%	
2006	41	17	0	0	0	6	64	63.5%	
2007	40	15	0	0	3	3	61	62.1%	
2008	36	20	1	0	1	1	59	66.8%	
9 mo. 2009	24	30	3	0	0	1	58	67.5%	

	2000	2001	2002	2003	2004	2005	2006	2007	2008	9 mo. 2009
Average Increase	30.5%	6.1%	11.1%	5.8%	18.7%	8.4%	9.2%	7.4%	9.4%	6.9%
Average Decrease	42.8%	43.7%	48.3%	38.4%	47.4%	40.0%	0%	0%	45.7%	46.4%

*Prior to 2000 = total industry dividends/total industry earnings, starting in 2000 = average of all companies paying dividend.

Source: EEI Finance Department and SNL Financial

Note: Only one action per company per year is counted. If a company raised its dividend twice, this counts as one in the Raised column.

IV. Category Comparison, Dividend Payout Ratio

	Calendar Year (Unless Noted)						
	2003	2004	2005	2006	2007	2008	2009*
EEI Index	63.7	67.9	66.5	63.3	62.1	66.8	67.5
Regulated	76.0	78.3	68.4	71.5	65.0	71.2	70.6
Mostly Regulated	56.1	59.0	65.0	56.6	63.5	66.7	66.2
Diversified	48.5	56.7	64.3	54.5	45.5	44.6	51.9

*12-month period ending 6/30/09

Source: EEI Finance Department, SNL Financial and company annual reports.

common stock dividend. This is the lowest percentage in our historical data set, which goes back to 1988, and the only time during that period when less than two companies were not paying a dividend.

Table III shows the industry's dividend payment pattern over the past 15 years. Each company is limited to one action per year. For example, if a company raised its dividend twice during a year, this counts as one in the Raised column. Companies generally use the same quarter each year for dividend changes, typically the first quarter for electric utilities.

Three Decreases Announced in February

In a rare event for the industry, three electric utilities announced dividend reductions in February of this year, with an average decrease of 46.4%. Only five utilities decreased or cancelled their dividend during the five-year period from 2004

V. Category Comparison, Dividend Yield

Category	at 9/30/09	
	Dividend Yield (%)	
EEI Index	4.9	
Regulated	4.9	
Mostly Regulated	5.0	
Diversified	3.9	

Source: EEI Finance Department and SNL Financial

through 2008, while the lone reduction in 2008 (by PNM Resources) was the only reduction or cancellation since 2005. Among the reasons cited for the 2009 reductions (by Great Plains Energy, Ameren and Constellation Energy) were the economic downturn, depressed stock prices and a desire to conserve cash flow.

2009 Dividend Increases Average 6.9%

The industry's average dividend increase during the first nine months of 2009 was 6.9%, with a range of 0.9% to 38.9%. CMS Energy (+38.9% in Q1), UniSource Energy (+20.8% in Q1) and Avista (+16.7% in Q2) posted the largest percentage increases. CMS, in fact, registered the industry's highest percent increase for the second consecutive year (CMS posted an 80% increase in 2008).

VI. Dividend Summary

U.S. Shareholder-Owned Electric Utilities (at 9/30/09)

Company (Stock Symbol)	Company Category	Annualized Dividend	Payout Ratio (%)	Yield (%)	Last Action	To	From	Date Announced
Allegheny Energy (AYE)	D	\$0.60	32.6	2.3	Reinstated	\$0.60	\$0.00	10/4/07
ALLETE (ALE)	R	\$1.76	69.9	5.2	Raised	\$1.76	\$1.72	1/22/09
Alliant Energy (LNT)	R	\$1.50	59.0	5.4	Raised	\$1.50	\$1.40	1/16/09
Ameren (AEE)	R	\$1.54	75.3	6.1	Lowered	\$1.54	\$2.54	2/13/09
American Electric Power (AEP)	R	\$1.64	58.9	5.3	Raised	\$1.64	\$1.56	10/23/07
Avista Corp. (AVA)	R	\$0.84	49.4	4.2	Raised	\$0.84	\$0.72	5/7/09
Black Hills Corp. (BKH)	MR	\$1.42	41.8	5.6	Raised	\$1.42	\$1.40	1/30/09
CenterPoint Energy (CNP)	MR	\$0.76	67.1	6.1	Raised	\$0.76	\$0.73	1/22/09
Central Vermont Public Svc. (CV)	R	\$0.92	54.3	4.8	Raised	\$0.92	\$0.88	1/12/04
CH Energy Group (CHG)	R	\$2.16	94.5	4.9	Raised	\$2.16	\$2.14	6/26/98
Cleco Corporation (CNL)	R	\$0.90	64.2	3.6	Raised	\$0.90	\$0.88	4/26/02
CMS Energy (CMS)	R	\$0.50	42.6	3.7	Raised	\$0.50	\$0.36	1/23/09
Consolidated Edison (ED)	R	\$2.36	91.6	5.8	Raised	\$2.36	\$2.34	1/22/09
Constellation Energy Group (CEG)	D	\$0.96	32.8	3.0	Lowered	\$0.96	\$1.91	2/18/09
Dominion Resources (D)	MR	\$1.75	60.8	5.1	Raised	\$1.75	\$1.58	12/17/08
DPL, Inc. (DPL)	R	\$1.14	53.9	4.4	Raised	\$1.14	\$1.10	1/29/09
DTE Energy (DTE)	R	\$2.12	64.4	6.0	Raised	\$2.12	\$2.06	12/7/06
Duke Energy (DUK)	MR	\$0.96	102.1	6.1	Raised	\$0.96	\$0.92	6/23/09
Edison International (EIX)	MR	\$1.24	21.7	3.7	Raised	\$1.24	\$1.22	12/11/08
El Paso Electric (EE)	R	—	0.0	0.0	Omitted			6/30/89
Empire District Electric (EDE)	R	\$1.28	93.8	7.1	Raised	\$1.28	\$1.25	10/22/92
Entergy (ETR)	MR	\$3.00	47.9	3.8	Raised	\$3.00	\$2.16	7/31/07
Exelon (EXC)	MR	\$2.10	49.7	4.2	Raised	\$2.10	\$2.00	10/24/08
FirstEnergy (FE)	MR	\$2.20	50.6	4.8	Raised	\$2.20	\$2.00	12/18/07
FPL Group (FPL)	MR	\$1.89	38.8	3.4	Raised	\$1.89	\$1.78	2/13/09
Great Plains Energy (GXP)	R	\$0.83	89.0	4.6	Lowered	\$0.83	\$1.66	2/10/09
Hawaiian Electric (HE)	D	\$1.24	105.4	6.8	Raised	\$1.24	\$1.22	1/20/98
IDACORP (IDA)	R	\$1.20	52.9	4.2	Lowered	\$1.20	\$1.86	9/18/03
Integrus Energy Group (TEG)	MR	\$2.72	166.9	7.6	Raised	\$2.72	\$2.68	2/17/09
Maine & Maritimes (MAM)	R	\$0.20	0.0	0.6	Reinstated	\$0.20	\$0.00	12/5/08
MDU Resources (MDU)	D	\$0.62	19.8	3.0	Raised	\$0.62	\$0.58	8/14/08
MGE Energy (MGEE)	MR	\$1.47	61.6	4.0	Raised	\$1.47	\$1.45	8/21/09
NiSource (NI)	MR	\$0.92	80.0	6.6	Lowered	\$0.92	\$1.16	8/26/03
Northeast Utilities (NU)	R	\$0.95	42.9	4.0	Raised	\$0.95	\$0.85	2/10/09
NorthWestern Corporation (NWECC)	R	\$1.34	75.8	5.5	Raised	\$1.34	\$1.32	2/13/09
NSTAR (NST)	R	\$1.50	63.6	4.7	Raised	\$1.50	\$1.40	11/20/08
NV Energy (NVE)	R	\$0.40	61.5	3.5	Raised	\$0.40	\$0.32	10/30/08
OGE Energy (OGE)	MR	\$1.42	52.4	4.3	Raised	\$1.42	\$1.39	12/3/08
Otter Tail (OTTR)	MR	\$1.19	122.5	5.0	Raised	\$1.19	\$1.17	2/5/08
Pepco Holdings (POM)	MR	\$1.08	95.3	7.3	Raised	\$1.08	\$1.04	1/24/08
PG&E (PCG)	R	\$1.68	43.4	4.1	Raised	\$1.68	\$1.56	2/24/09
Pinnacle West Capital (PNW)	R	\$2.10	70.9	6.4	Raised	\$2.10	\$2.00	10/18/06
PNM Resources (PNM)	R	\$0.50	94.7	4.3	Lowered	\$0.50	\$0.92	8/11/08
Portland General Electric (POR)	R	\$1.02	92.9	5.2	Raised	\$1.02	\$0.98	5/13/09
PPL Corp. (PPL)	D	\$1.38	68.8	4.5	Raised	\$1.38	\$1.34	2/27/09
Progress Energy (PGN)	R	\$2.48	85.5	6.3	Raised	\$2.48	\$2.46	12/10/08
Public Svc. Enter. Group (PEG)	MR	\$1.33	44.1	4.2	Raised	\$1.33	\$1.29	2/17/09
SCANA Corporation (SCG)	MR	\$1.88	63.1	5.4	Raised	\$1.88	\$1.84	2/19/09

VI. Dividend Summary (cont.)

U.S. Shareholder-Owned Electric Utilities

Company (Stock Symbol)	Company Category	Annualized Dividend	Payout Ratio (%)	Yield (%)	Last Action	To	From	Date Announced
Sempra Energy (SRE)	MR	\$1.56	25.4	3.1	Raised	\$1.56	\$1.40	2/20/09
Southern Company (SO)	R	\$1.75	72.8	5.5	Raised	\$1.75	\$1.68	4/20/09
TECO Energy, Inc. (TE)	R	\$0.80	96.9	5.7	Raised	\$0.80	\$0.78	4/30/08
UIL Holdings (UIL)	R	\$1.73	77.4	6.5	Raised	\$1.73	\$1.69	2/26/96
UniSource Energy (UNS)	R	\$1.16	78.4	3.8	Raised	\$1.16	\$0.96	2/13/09
Unitil Corporation (UTL)	R	\$1.38	68.8	6.1	Raised	\$1.38	\$1.36	1/19/99
Vectren Corporation (VVC)	R	\$1.34	84.9	5.8	Raised	\$1.34	\$1.30	10/28/08
Westar Energy (WR)	R	\$1.20	80.1	6.2	Raised	\$1.20	\$1.16	2/25/09
Wisconsin Energy (WEC)	R	\$1.35	NM	3.0	Raised	\$1.35	\$1.08	12/4/08
Xcel Energy (XEL)	R	\$0.98	56.3	5.1	Raised	\$0.98	\$0.95	5/20/09
Industry Average			67.5	4.9				

Categories — R= Regulated, MR = Mostly Regulated, D = Diversified.

Dividend Per Share — Per share amounts are annualized declared figures as of 9/30/09.

Dividend Payout Ratio — Dividends paid for 12 months ended 6/30/09 divided by net income before nonrecurring and extraordinary items for 12 months ended 6/30/09.

Dividend Yield— Annualized Dividends Per Share at 9/30/09 divided by stock price at market close on 9/30/09.

NM applies to companies with negative earnings or payout ratios greater than 200%.

Source: EEI Finance Department and SNL Financial

MGE Energy Increases Dividend in Q3

MGE Energy, based in Madison, Wisconsin, announced in August a 1.85% increase in its quarterly dividend, from \$0.3617 to \$0.3684 per share. The company has increased its dividend each year since 1976, and has paid annual dividends continuously since 1909. MGE Energy's principal subsidiary, Madison Gas & Electric, generates and distributes electricity to 137,000 customers in Dane County, Wisconsin and distributes natural gas to 141,000 customers in seven south-central and western Wisconsin counties.

Payout Ratio and Dividend Yield

The electric utility industry typically pays out a higher percentage of earnings than does any other business sector. Payout ratios for several sectors, however, have been very volatile in recent quarters, and have significantly increased in some cases due to the economic recession's impact on earnings. While the utility industry's net income has fluctuated from year-to-year, its payout ratio has remained relatively consistent after eliminating non-recurring and extraordinary items from earnings. We use the following approach when calculating the industry's dividend payout ratio:

1. Non-recurring and extraordinary items are eliminated from earnings.
2. Companies with negative adjusted earnings are eliminated.
3. Companies with a payout ratio in excess of 200% are eliminated.

Regulated Group Records Highest Payout Ratio

The Regulated group of companies had a dividend payout ratio of 70.6% for the 12 month period ending June 30, 2009,

compared to 66.2% for the Mostly Regulated group and 51.9% for the Diversified group (see Table IV). The Regulated group produced the highest payout ratio in each of the previous five calendar years.

As shown in Table V, the Mostly Regulated group had the highest dividend yield, at 5.0% on September 30, 2009, compared to 4.9% and 3.9% for the Regulated and Diversified groups respectively. On December 31, 2008, the Mostly Regulated group's 3.6% dividend yield trailed the Regulated group's 3.8% yield. The Mostly Regulated group moved ahead due to relatively larger declines among its constituent company stocks over the last seven quarters.

Industry's Dividend Yield Leads All Sectors

The industry's average dividend yield was 4.9% on September 30, 2009, leading all other U.S. business sectors and up from the 3.7% to 4.1% range in 2005 through 2007, when widespread dividend increases nearly matched stock price gains. Although total dividends paid to common shareholders continue to rise for the industry — up 4.5% year-to-year in the first six months of 2009 and 9.2% in 2008 — stock prices have not kept pace. The EEI Index, a market-cap weighted index, had a -25.9% total return in 2008 and a 2.5% return during the first nine months of 2009, leading to the jump in yield. We calculate the industry's aggregate dividend yield using an un-weighted average of the 58 publicly traded EEI Index companies' yields.

Share Repurchases Remain Low after 2007 Spike

Nine of the industry's publicly traded companies repurchased an aggregate \$164 million of common shares during the first six months of 2009 as an alternative way of returning cash to

VII. Free Cash Flow

U.S. Shareholder-Owned Electric Utilities

(\$ Billions)	2000	2001	2002	2003	2004	2005	2006	2007r	2008	6 mo. '08	6 mo. '09
Net Cash Provided by Oper. Activities	42.1	55.4	56.3	57.0	58.1	50.2	69.4	61.1	63.3	32.1	41.7
— Capital Expenditures	(47.4)	(57.2)	(49.0)	(43.0)	(41.1)	(48.4)	(59.9)	(74.1)	(84.2)	(39.6)	(38.5)
— Dividends Paid to Common Shhlders	(14.6)	(13.1)	(13.4)	(12.3)	(13.2)	(15.1)	(16.1)	(15.4)	(16.5)	(8.2)	(8.6)
Free Cash Flow	(19.9)	(14.8)	(6.0)	1.7	3.8	(13.2)	(6.6)	(28.4)	(37.4)	(15.7)	(5.4)

Source: SNL Financial and EEI Finance Department / r =revised

shareholders, with only \$5 million coming in the second quarter. This is down from 15 companies and \$2.0 billion during the first half of 2008. Share repurchases totaled \$2.4 billion in calendar year 2008, down from \$11.9 billion in 2007. The 2007 repurchases were 90% higher than the \$6.3 billion spent in 2006. The industry's common share repurchases exceeded \$6.0 billion in 2004, 2005 and 2006, after rising from only \$120 million in 2003.

Declining Capex Reduced Cash Flow Deficit

A decline in capital expenditures helped boost aggregate industry free cash flow in the first half of 2009, as capex through the first six months of the year fell by \$1.2 billion, or 2.9%, while net cash provided by operating activities rose by \$9.5 billion, or 29.8%. Measured on a trailing 12-month basis, capital expenditures at Q2 2009 fell for the first time since Q3 2004, to \$84.7 billion from \$85.1 billion at Q1 2009. Trailing 12-month capex had increased in each of the previous 18 quarter-ending periods due to increased spending on environmental compliance, transmission and distribution upgrades, and new generation capacity.

EEI's latest projections for industry capex total \$84.2 billion in 2009, \$84.8 billion in 2010 and \$86.6 billion in 2011. The 2009 projection is about the same as it was in mid-2008, having climbed back up in 2009 after falling about 10% in late 2008 as companies reacted to the economic crisis and its impact on capital availability and expected demand growth.

As shown in Table VII, the industry's consolidated free cash flow was a negative \$5.4 billion in the first half of 2009 after falling to a negative \$37.4 billion in 2008 and a negative \$28.4 billion in 2007. 2008 was the fourth straight calendar year of negative free cash flow, following positive results in 2003 and 2004. While many analysts define free cash flow as the difference between cash flow from operations and capital expenditures, we also deduct common dividends due to the utility industry's strong tradition of dividend payments. Aggregate pre-dividend free cash flow moved back into positive territory in the first half of 2009, at \$3.1 billion, after falling to a negative \$20.9 billion in 2008 from a negative \$13.0 billion in 2007, with 2007 producing the industry's first negative year since 2001.

Total aggregate industry-wide cash dividends paid to common shareholders rose by \$369 million, or 4.5%, to \$8.5

billion in the first half of 2009 from \$8.2 billion in the same period of 2008. (Note: The percentage gains referenced earlier are arithmetical averages of individual company actions). From 2003 through 2008, total industry-wide cash dividends rose 34%, to \$16.5 billion from \$12.3 billion.

Emerging Issue:**Financial Market Reform and OTC Derivatives**

As part of its overall effort to reform financial market regulation in response to the 2008 financial crisis, the U.S. Congress is considering new regulations for U.S. derivatives markets. While the Edison Electric Institute (EEI) supports the goals of the Obama administration and congress to improve transparency and stability in OTC derivatives markets and to prevent excessive speculation, we believe it is essential that policy makers preserve utilities' access to critical OTC energy derivatives products and OTC energy markets. Utilities rely on these products and markets to manage commodity price volatility and to keep fuel costs and rates for end users as low as possible.

EEI has two main concerns related to proposals for the mandatory clearing of all OTC derivatives transactions and the movement of OTC derivatives transactions onto an exchange:

1. The cash margin requirements of a clearinghouse or an exchange are significantly higher, and would tie up needed cash at a time when utilities continue to invest in infrastructure at historically high levels.
2. Since clearinghouses and exchanges require a high level of product standardization and liquidity, such proposals would greatly reduce the ability of companies to find customized derivatives products that most efficiently manage risks (e.g. those that specify delivery locations).

EEI is leading a coalition of 15 associations, many of them energy-related, to ensure that access to OTC derivatives products and markets is preserved for the energy sector while distinguishing between necessary hedging transactions and speculative trading. Maintaining the industry's access to these products and markets lowers the risk of rate increases for end-use customers.

Industry Looks to Extend the 15% Dividend Tax Rate

In May 2006, Congress extended the current 15% dividend tax rate an additional two years, through 2010. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced individual tax rates on dividends to 15% for most tax brackets and to 5% for the lowest two brackets, giving dividend paying stocks an advantage over bonds as bond interest is still taxed as ordinary income.

The 15% dividend tax rate remains important to the industry's ability to attract capital for investment in emissions reduction, new transmission lines, distribution upgrades, and new generation in many power markets in the years ahead. As part of President Obama's proposed budget, the dividend tax rate would increase to 20% starting in 2011 for joint filers making more than \$250,000 and single filers making more than \$200,000. While higher than the current 15% tax rate,

the proposed rate is less than what high-income filers paid when dividends were taxed as ordinary income.

In April 2008, the Edison Electric Institute and the American Gas Association (AGA) released a study showing that the 15% maximum federal tax rate on qualified dividend income has benefitted a broad range of utility shareholders, especially older citizens who depend on dividends for steady income. The report can be downloaded at www.eei.org. The study, based on Internal Revenue Service data analyzed by the consulting group Ernst & Young, showed that in 2004 (the latest year for which complete data was available), 64% of federal tax returns with qualified dividends from direct ownership of utility shares were filed by taxpayers age 65 or older. The study also showed that 68% of those returns were from taxpayers with incomes of less than \$75,000 and 42% from taxpayers with incomes of less than \$25,000. ■