



**EDISON ELECTRIC
INSTITUTE**

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Stock Performance

**Q4 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

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.
Integrus 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

Stock Performance

HIGHLIGHTS

■ The EEI Index's 10.7% return in 2009 fell short of the S&P 500's 26.5% return, breaking a five-year trend of outperformance, and ranked utilities near the bottom of returns by sector. Defensive stocks typically lag in market rebounds coming out of recessions.

■ Despite electricity's central role in our lives, utilities are not immune from economic weakness. Electricity demand actually fell 3.7% year-to-year in 2009, a rare occurrence for an industry that generally sees low single-digit demand growth.

■ EEI's Regulated group, with an average 14.2% return, and Mostly Regulated group, with an average 15.6% return, outperformed the Diversified group, which returned 8.1% for the year.

■ The industry's average dividend yield at December 31 was 4.5% compared to just under 2.0% for the S&P 500. As the year ended, a number of analysts remarked on the relatively attractive valuation of regulated utility stocks.

COMMENTARY

The EEI Index returned 5.5% in the fourth quarter to produce a 10.7% return for 2009 — a reasonably strong gain for a year that began in the depths of the worst global financial crisis since the 1930s with an economy wracked by the worst recession since the early 1980s. Yet the performance fell short of the stronger gains posted by the major market averages, as the S&P 500 returned 26.5%, the Dow Jones 22.7% and the Nasdaq a more ebullient 43.9%. While there were few signs of economic recovery until late in the year, the markets looked favorably on the aggressive fiscal and mone-

I. Index Comparison (% Return)

Index	2003	2004	2005	2006	2007	2008	2009
EEI Index	23.4	22.8	16.0	20.8	16.6	-25.9	10.7
Dow Jones Inds.	28.3	5.3	1.7	19.1	8.9	-31.9	22.7
S&P 500	28.7	10.9	4.9	15.8	5.5	-37.0	26.5
Nasdaq Comp.^	50.0	8.6	1.4	9.5	9.8	-40.5	43.9

Calendar year returns shown for all periods.
 ^Price gain/loss only. Other indices show total return.
 Full year, except where noted.
 Source: EEI Finance Department

II. Category Comparison (% Return)

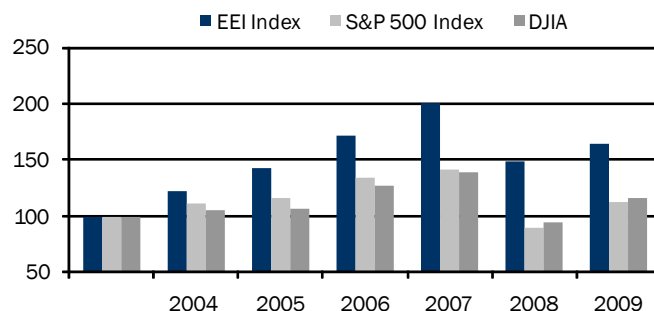
U.S. Shareholder-Owned Electric Utilities

Index	2003	2004	2005	2006	2007	2008	2009
All Companies	29.1	18.9	9.9	22.5	9.8	-20.9	14.1
Regulated	27.0	14.4	2.7	22.6	7.8	-15.6	14.2
Mostly Regulated	26.9	16.4	12.9	22.4	9.9	-27.0	15.6
Diversified	36.1	36.7	24.7	22.2	18.5	-33.9	8.1

Calendar year returns shown for all periods.
 Returns shown here are unweighted averages of constituent company returns. The EEI Index return shown in Table I above is cap-weighted.
 Source: EEI Finance Department, SNL Financial and company annual reports.

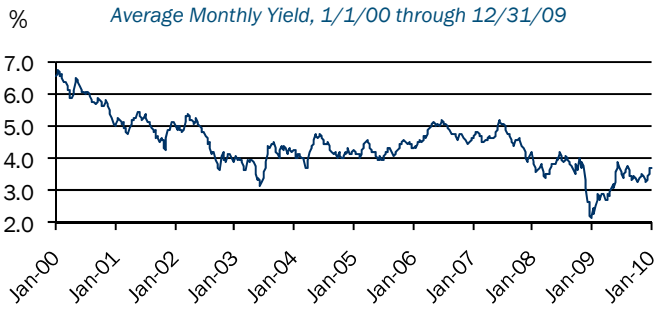
III. Total Return Comparison

Value of \$100 invested at close on 12/31/2003

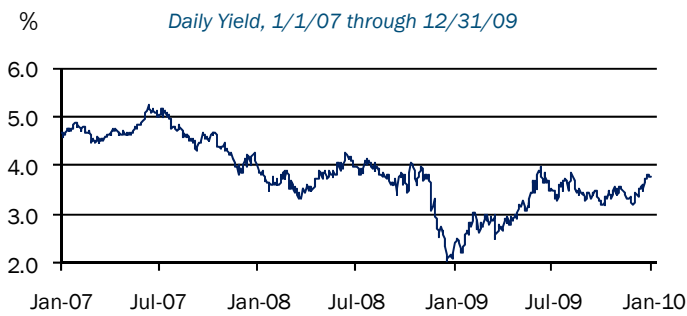


Note: Full year, except where noted.
 Source: EEI Finance Department

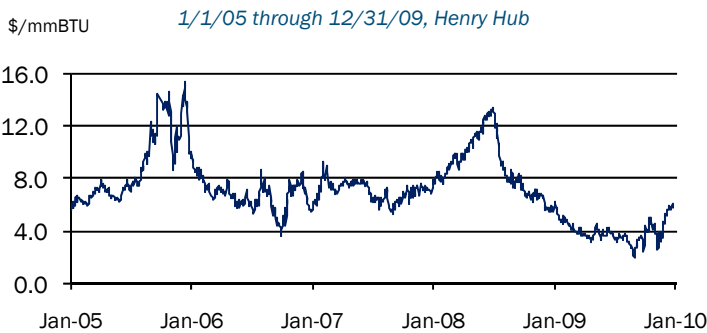
IV. 10-Year Treasury Yield — Weekly



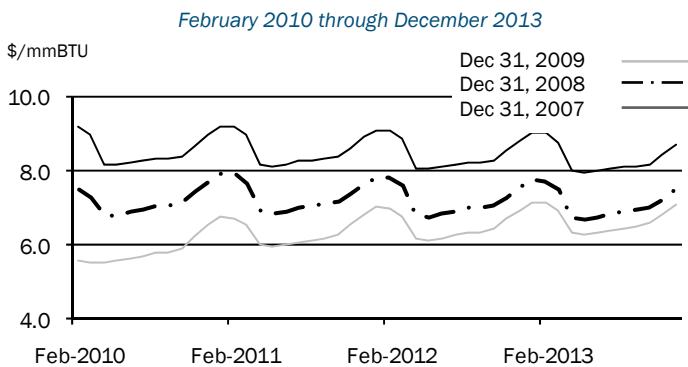
V. 10-Year Treasury Yield — Daily



VI. Natural Gas Spot Prices



VII. NYMEX Natural Gas Futures



VIII. Returns by Quarter

	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
Index											
EEl Index	-1.5	1.8	6.9	-10.4	7.1	-14.3	-9.9	-11.0	9.1	5.5	8.0
Dow Jones Ind.	9.1	4.2	-3.9	-7.0	-6.9	-3.7	-18.4	-12.5	12.0	15.8	8.1
S&P 500	6.3	2.0	-3.3	-9.5	-2.7	-8.4	-21.9	-11.0	15.9	15.6	6.0
Nasdaq Comp.^	7.5	3.8	-1.8	-14.1	0.6	-9.2	-24.3	-3.1	20.0	15.7	6.9

^Price gain/loss only. Other indices show total return.
Source: EEl Finance Department

Category*	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4
All Companies	-2.2	0.5	5.6	-12.4	6.1	-6.2	-9.3	-12.6	9.8	9.0	9.0
Regulated	-3.2	1.3	5.4	-13.6	4.9	-0.3	-5.9	-11.5	7.5	9.6	9.6
Mostly Regulated	-1.6	-1.0	5.0	-10.1	8.7	-13.9	-14.0	-11.9	11.3	8.9	8.3
Diversified	-0.1	0.1	8.6	-11.6	6.7	-15.5	-17.0	-22.8	22.8	5.6	8.0

* Returns shown here are unweighted averages of constituent company returns. The EEl Index return shown above is cap-weighted.
Source: EEl Finance Department, SNL Financial and company annual reports.

IX. Sector Comparison, Trailing 12 mo. Total Return

For the twelve-month period ending 12/31/09

Sector	Total Return
Basic Materials	65.5%
Technology	64.5%
Consumer Services	33.7%
Aggregate Index	28.8%
Industrials	26.1%
Consumer Goods	23.9%
Healthcare	21.7%
Oil & Gas	17.3%
Financials	17.1%
Utilities	12.6%
EEl Index	10.7%
Telecommunications	9.9%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_US_Indexes_Industry_Indexes_Fact_Sheet.pdf

X. Sector Comparison, Q4 2009 Total Return

For the three-month period ending 12/31/09

Sector	Total Return
Technology	10.73%
Basic Materials	9.92%
Healthcare	8.66%
Telecommunications	7.04%
Utilities	6.84%
Consumer Services	6.83%
Consumer Goods	6.07%
Aggregate Index	6.05%
Industrials	6.01%
EEl Index	5.50%
Oil & Gas	4.63%
Financials	-1.30%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/

XI. Market Capitalization at December 31, 2009 (in \$ Mil.)

U.S. Shareholder-Owned Electric Utilities

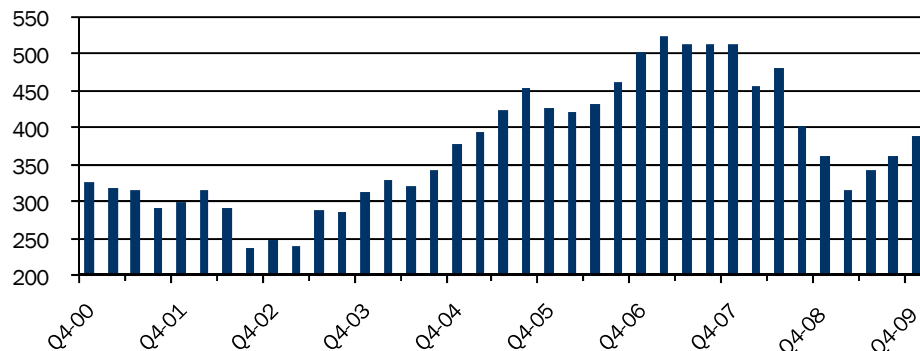
Company	Stock Symbol	Market Cap	% Total	Company	Stock Symbol	Market Cap	% Total
Exelon Corporation	EXC	32,254.2	8.28%	OGE Energy Corp.	OGE	3,567.3	0.92%
Southern Company	SO	26,603.3	6.83%	CMS Energy Corporation	CMS	3,559.5	0.91%
Dominion Resources, Inc.	D	23,192.4	5.95%	TECO Energy, Inc.	TE	3,437.0	0.88%
Duke Energy Corporation	DUK	22,355.8	5.74%	Alliant Energy Corporation	LNT	3,337.3	0.86%
FPL Group, Inc.	FPL	21,397.4	5.49%	Integrus Energy Group, Inc.	TEG	3,224.8	0.83%
Public Service Enterprise Group Incorporated	PEG	16,823.9	4.32%	DPL Inc.	DPL	3,102.2	0.80%
American Electric Power Company, Inc.	AEP	16,593.0	4.26%	NV Energy, Inc.	NVE	2,904.7	0.75%
PG&E Corporation	PCG	16,520.5	4.24%	Great Plains Energy Inc.	GXP	2,609.9	0.67%
Entergy Corporation	ETR	15,829.9	4.06%	Westar Energy, Inc.	WR	2,383.8	0.61%
FirstEnergy Corp.	FE	14,120.8	3.62%	Vectren Corporation	VVC	1,994.1	0.51%
Sempra Energy	SRE	13,654.9	3.50%	Hawaiian Electric Industries, Inc.	HE	1,912.8	0.49%
Consolidated Edison, Inc.	ED	12,497.8	3.21%	Cleco Corporation	CNL	1,646.2	0.42%
PPL Corporation	PPL	12,161.0	3.12%	Portland General Electric Company	POR	1,534.5	0.39%
Progress Energy, Inc.	PGN	11,482.8	2.95%	IDACORP, Inc.	IDA	1,503.8	0.39%
Edison International	EIX	11,338.3	2.91%	Avista Corporation	AVA	1,181.1	0.30%
Xcel Energy Inc.	XEL	9,692.6	2.49%	PNM Resources, Inc.	PNM	1,156.9	0.30%
DTE Energy Company	DTE	7,192.4	1.85%	UniSource Energy Corporation	UNS	1,156.5	0.30%
Constellation Energy Group, Inc.	CEG	7,019.9	1.80%	ALLETE, Inc.	ALE	1,071.9	0.28%
Ameren Corporation	AEE	6,098.7	1.57%	Black Hills Corporation	BKH	1,029.1	0.26%
Wisconsin Energy Corporation	WEC	5,825.1	1.49%	NorthWestern Corporation	NWE	935.9	0.24%
CenterPoint Energy, Inc.	CNP	5,361.6	1.38%	El Paso Electric Company	EE	904.2	0.23%
SCANA Corporation	SCG	4,615.8	1.18%	Otter Tail Corporation	OTTR	881.8	0.23%
Northeast Utilities	NU	4,522.5	1.16%	UIL Holdings Corporation	UIL	839.2	0.22%
MDU Resources Group, Inc.	MDU	4,369.8	1.12%	MGE Energy, Inc.	MGEE	826.1	0.21%
NiSource Inc.	NI	4,235.7	1.09%	CH Energy Group, Inc.	CHG	670.8	0.17%
Allegheny Energy, Inc.	AYE	3,981.4	1.02%	Empire District Electric Company	EDE	652.6	0.17%
NSTAR	NST	3,930.5	1.01%	Unitil Corporation	UTL	247.4	0.06%
Pepco Holdings, Inc.	POM	3,723.9	0.96%	Central Vermont Public Service Corporation	CV	242.9	0.06%
Pinnacle West Capital Corporation	PNW	3,702.7	0.95%	Maine & Maritimes Corp.	MAM	58.5	0.02%
				Total Industry		\$389,671.5	100.0%

Source: EEI Finance Department and Wall Street Journal

XII. EEI Index Market Capitalization (at Period End)

U.S. Shareholder-Owned Electric Utilities

\$ Billions

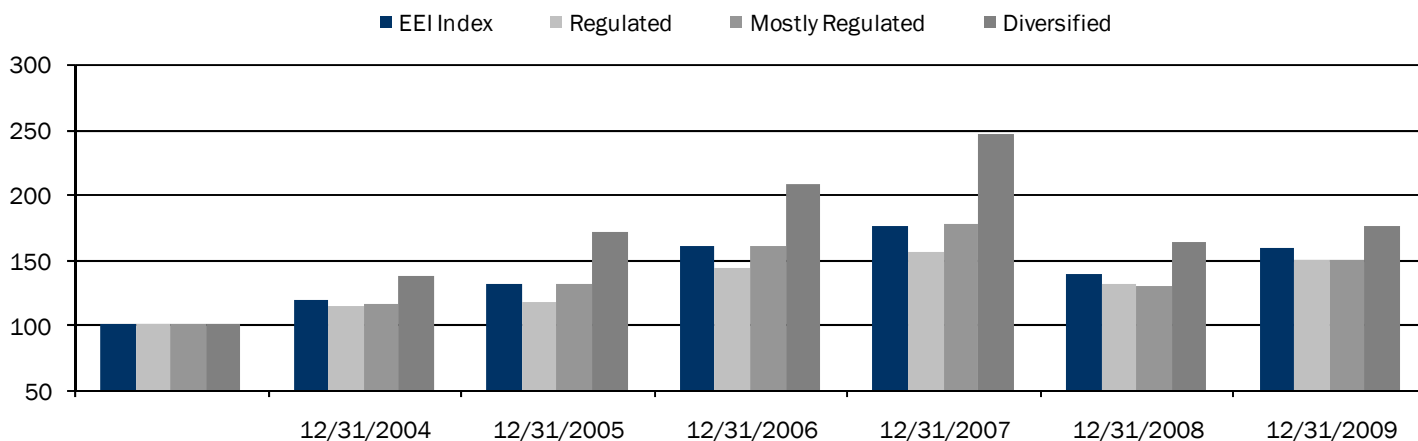


Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.

Source: EEI Finance Department and Wall Street Journal

XIII. Comparative Category Total Annual Returns

U.S. Shareholder-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2003



	2003	2004	2005	2006	2007	2008	2009
EEI Index Annual Return (%)		18.93	9.89	22.47	9.83	(20.93)	14.13
EEI Index Cumulative Return (\$)	100	118.93	130.69	160.06	175.79	138.99	158.64
Regulated EEI Index Annual Return		14.40	2.73	22.65	7.81	(15.59)	14.25
Regulated EEI Index Cumulative Return	100	114.40	117.53	144.15	155.41	131.18	149.87
Mostly Regulated EEI Index Annual Return		16.44	12.87	22.37	9.93	(27.00)	15.58
Mostly Regulated EEI Index Cumulative Return	100	116.44	131.42	160.82	176.79	129.06	149.17
Diversified EEI Index Annual Return		36.70	24.73	22.16	18.46	(33.90)	8.07
Diversified EEI Index Cumulative Return	100	136.70	170.50	208.28	246.72	163.08	176.25

Calendar year returns shown for all periods.
Returns are unweighted averages of constituent company returns.

tary stimulus programs put in place by major global governments to combat the severe recession, and found confidence in a moderation of the rate of decline of measures such as employment, auto sales and retail consumption as the year progressed.

The EEI Index's 10.7% return was also not enough to sustain its five-year long trend of outperforming the major market averages, and ranked it near the bottom of returns by sector for the year. Telecom (+9.9%), Financials (+17.1%) and the broader Utilities (+12.6%) sectors were the weakest, while the more economically sensitive and cyclical Basic Materials (+65.5%), Technology (+64.5%) and Consumer Services (+33.7%) were the strongest.

Given the explosive market rally that began in March, the EEI Index's underperformance of the major averages is not surprising. Defensive stocks typically lag early in market rebounds coming out of recessions, and the EEI Index surpassed broad market returns in each year from 2004 through 2008. Five years is a long stretch of outperformance for any

XIV. EEI Index Top Ten Performers

For the 12-month period ending 12/31/09

Company	Category	% Return
CMS Energy Corporation	R	60.9
NiSource Inc.	MR	51.0
OGE Energy Corp.	MR	50.1
Constellation Energy Group, Inc.	D	45.1
TECO Energy, Inc.	R	39.6
Sempra Energy	MR	35.4
PNM Resources, Inc.	R	31.5
DTE Energy Company	R	30.1
NV Energy, Inc.	R	29.9
DPL Inc.	R	26.6

Note: Return figures include capital gains and dividends.
R = Regulated, MR = Mostly Regulated, D = Diversified
Source: EEI Finance Department

industry but especially so for the traditionally staid and conservative utilities, who spent much of the middle years of the past decade rebuilding balance sheets and refocusing business strategies on basic regulated distribution and generation after the turbulence and missteps into non-core businesses that followed deregulation in the late 1990s.

Utilities a Winner for the Decade

Indeed, the industry’s return to its roots in the traditional power business proved a winning strategy for long-term growth of shareholder value during the decade that just ended. From January 1, 2000 through December 31, 2009, the EEI Index returned 134%, substantially outperforming the Dow Jones Industrials 14% return, the S&P 500’s -9% return, and the Nasdaq’s 44% decline. The tech-heavy Nasdaq never fully retraced the ground lost after the tech bubble collapsed in 2001, and the S&P 500 was also heavily weighted with technology at the decade’s start, which accounts in part for its negative showing. The financial crisis and “Great Recession” (the popular label for our current economic malaise) capped the ten-year stretch, producing severe losses in financial stocks and a new round of weakness for the Nasdaq. All in all, conservative, plodding utilities were the tortoise that outran the hare, demonstrating that sound regulation, financial stability, operational and

service excellence and good investment returns can all co-exist, and in fact be mutually reinforcing.

Power Demand Falls in Weak Economy

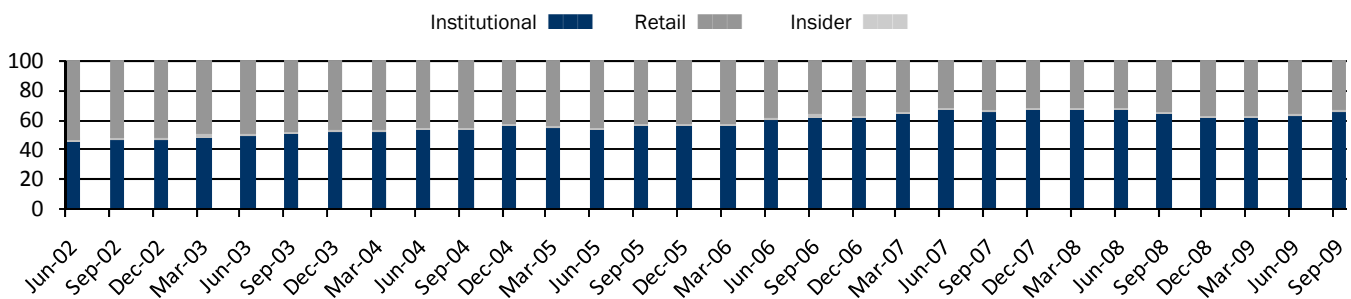
Despite the relatively stable demand for electric power compared to that for other goods and services, utilities are not immune from the impact of a very weak economy. Total electricity demand actually fell 3.7% year-to-year in 2009, according to data compiled by EEI covering the lower 48 states. The recession’s impact was most severe in the manufacturing-heavy Central Industrial and West Central regions, where demand fell 6.0% and 5.4%, respectively. Cooler-than-normal weather across much of the U.S. during the summer was also a factor that drove demand lower year-to-year. Demand declines are a rare occurrence for an industry that generally experiences low single-digit annual growth, and Wall Street analysts noted that many companies revised their 2009 earnings outlooks downward during the year in response to falling sales and a ratcheting down of expected demand strength. This likely was a depressing force on stocks as well.

Interest Rates, Commodities Largely Neutral

Other fundamental factors impacting the industry during the year were mildly antagonistic to share prices, although

XV. Share Ownership by Investor Category (% of total)

U.S. Shareholder-Owned Electric Utilities



	Sep-02	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03	Mar-04	Jun-04	Sep-04	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Mar-06
Institutional	47.2	46.6	48.6	49.6	50	51.5	51.4	53.1	53.5	55.6	54.9	53.3	56.1	55.9	55.6
Insider	1.5	1.5	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Retail	51.3	51.9	49.7	48.8	48.4	46.9	47.1	45.4	45.1	43.0	43.3	44.9	42.2	42.3	42.7
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

	Jun-06	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-09	Mar-09	Jun-09	Sep-09
Institutional	60.2	61.8	61.7	63.4	66.9	65.7	66.7	66.4	66.7	64.0	61.8	61.9	63.0	65.4
Insider	1.8	1.8	1.8	1.8	1.7	1.7	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Retail	38.0	36.4	36.5	34.8	31.4	32.6	31.8	32.1	31.8	34.5	36.9	36.7	35.6	33.2
Total	100	100	100.0	100.0	100	100	100	100	100	100	100	100	100	100

Source: SNL Financial and EEI Finance Department. Note: Institutional figures represent end-of-quarter, unweighted average of the 58 publicly traded EEI Index companies. Insider data reported annually. Retail data defined as 100% - (Institutional data % + Insider %). Totals may not add to 100 due to rounding.

likely with less relative impact than technical factors relating to capital flows among sectors during the year's strong rally.

The 10-year Treasury yield nearly doubled, from just above 2.0% in January to near 4.0% by year-end. But government yields were held artificially low early in 2009 by investors' flight to the safety of U.S. government debt at the height of the bond market panic. And the 3.0% to 4.0% range that prevailed after mid-year, once the market crisis eased, was little changed from that of 2008 and below the 4.0% to 5.0% range that characterized 2007.

Natural gas spot prices (Henry Hub) remained under \$4/mmBtu for most of the year, down from more than \$12 in mid-2008, and near their multi-year lows. Low natural gas prices impact competitive generators in markets where gas power is the marginal price-setting fuel, but offer some benefit to regulated distribution utilities in the form of lower fuel costs and customer bills (particularly as rates are rising in some jurisdictions due to heavy infrastructure investment) and reduced bad debt expenses. The latter was a trend remarked on by some Wall Street analysts during the year.

The natural gas futures curve also edged down by year-end from its range at the start of the year, reflecting burgeoning supply and the ratcheting down of demand expectations given the recession and outlook for a slow and relatively tepid recovery.

Dividend Yields Support Shares

EEI's Regulated and Mostly Regulated groups posted average returns of 14.2% and 15.6%, respectively, in 2009, outperforming the Diversified group's 8.1% return. (These figures represent the unweighted average for each group. The EEI Index is cap-weighted.) The shares of companies with competitive generation subsidiaries and exposure to competitive electricity markets suffered somewhat more during 2009 than did more regulated companies, whose share prices have been supported by a lack of direct exposure to natural gas price volatility, by their sturdier dividend yields and by their relatively strong balance sheets.

Many companies across all business sectors cut dividends in 2009 in response to the economic recession and the turmoil in global credit markets. And given still elevated capex spending across much of the utility industry along with lower power demand, dividend cuts emerged as a concern for utility investors early in 2009, as three utilities cut their dividend in mid-February (the prior five years saw only four total cuts). Yet cuts were isolated and few.

The industry actually extended a five-year trend of widespread dividend increases, with 31 companies either raising or reinstating their dividend during the year. At December 31, 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 EEI's data

set (back to 1988), and the only time when less than two companies were not paying a dividend. The industry's average dividend yield at year-end was an attractive 4.5% compared just under 2.0% for the S&P 500 as a whole.

Fundamentals Remain Solid

While the changed economic landscape since mid-2008 has diminished the industry's near-term earnings prospects, industry analysts continue to believe that many companies offer potential for a return to reasonably strong earnings growth — supported by rate base growth and rate relief from cases decided in recent months — as the economy recovers from recession and enters a new expansion phase.

Indeed, utilities are being encouraged by state energy policies to invest in renewable generation, smart grid programs, energy efficiency/conservation and emissions reduction. Such spending remains a rare and welcome source of good jobs in most states. Even with a reduced outlook for demand growth, the construction of new generation — whether renewable, natural gas-fired or modern baseload coal — allows for the phase-out of older, less-efficient coal plants and improves emissions profiles. Transmission investment also gained additional prominence in 2009 as a possible growth theme, as industry analysts noted the potential for federal legislation in 2010 on energy or the environment that may include a transmission title that would enhance FERC authority over rights of way, possibly facilitating construction of transmission from prime renewable generation areas to load centers.

Given the harmonizing of utility capex plans with state energy policies, the 2009 regulatory environment was generally seen as neutral to constructive. However, falling fuel prices offset some of the rate pressures resulting from rising capital investment and, as is always the case in this capital intensive industry, the maintenance of healthy regulatory relations is a key foundation of the industry's ability to attract needed investment capital and maintain a healthy financial profile.

In fact, the industry's generally strong balance sheets and credit ratings, and its strategic focus on predictable regulatory treatment (such as pre-approval of major projects and construction work-in-progress rate treatment in several states) were key factors that enable companies to access capital throughout the credit crisis of late 2008/early 2009.

The industry's positive long-term fundamental outlook and attractive dividend yields will likely continue to appeal to investors looking for stable investments in today's difficult economic environment. As the year came to an end, a number of analysts remarked on the relative undervaluation of regulated utility stocks relative to the broad market, and suggested that the underperformance in 2009 was unlikely to be sustained. ■