



Edison Electric
INSTITUTE

Stock Performance

Q3 2018
FINANCIAL UPDATE

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

About EEI

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies, with operations in more than 90 countries, as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

About EEI's Quarterly Financial Updates

EEI's quarterly regulatory and financial updates present industry trend analyses and financial data covering 47 U.S. investor-owned electric utility companies. These 47 companies include 42 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and five electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

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

EEI Finance Department material can be found online at: www.eei.org/QFU.

For EEI Member Companies

The EEI Finance and Accounting Division maintains 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 publications and industry data sets best address the needs of member companies and the regulatory and financial communities. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

EEI Financial Conference
November 11-14, 2018
Hilton San Francisco Union Square
San Francisco, California

For more information about future EEI Finance Meetings, please contact Debra Henry at (202) 508-5496 or dhenry@eei.org, or Devin James at (202) 508-5057 or djames@eei.org.

The 47 U.S. Investor-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.

ALLETE, Inc. (ALE)
Alliant Energy Corporation (LNT)
Ameren Corporation (AEE)
American Electric Power Company, Inc. (AEP)
AVANGRID, Inc. (AGR)
Avista Corporation (AVA)
Berkshire Hathaway Energy
Black Hills Corporation (BKH)
CenterPoint Energy, Inc. (CNP)
Cleco Corporation
CMS Energy Corporation (CMS)
Consolidated Edison, Inc. (ED)
Dominion Resources, Inc. (D)
DPL, Inc.
DTE Energy Company (DTE)
Duke Energy Corporation (DUK)
Edison International (EIX)
El Paso Electric Company (EE)
Entergy Corporation (ETR)
Eversource Energy (ES)
Exelon Corporation (EXC)
FirstEnergy Corp. (FE)
Hawaiian Electric Industries, Inc. (HE)
IDACORP, Inc. (IDA)

IPALCO Enterprises, Inc.
MDU Resources Group, Inc. (MDU)
MGE Energy, Inc. (MGEE)
NextEra Energy, Inc. (NEE)
NiSource Inc. (NI)
NorthWestern Corporation (NWE)
OGE Energy Corp. (OGE)
Otter Tail Corporation (OTTR)
PG&E Corporation (PCG)
Pinnacle West Capital Corporation (PNW)
PNM Resources, Inc. (PNM)
Portland General Electric Company (POR)
PPL Corporation (PPL)
Public Service Enterprise Group Inc. (PEG)
Puget Energy, Inc.
SCANA Corporation (SCG)
Sempra Energy (SRE)
Southern Company (SO)
Unitil Corporation (UTL)
Vectren Corporation (VVC)
WEC Energy Group, Inc. (WEC)
Xcel Energy, Inc. (XEL)

Note: Companies shown in italics are not listed on U.S. stock exchanges for one of the following reasons — they are subsidiaries of an independent power producer; they are subsidiaries of foreign-owned companies; or they were acquired by other investment firms.

Companies Listed by Category

(Based on Business Segmentation Data as of 12/31/2017)

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
Mostly Regulated

80% or more of total assets are regulated
Less than 80% of total assets are regulated

Categorization is based on year-end business segmentation data presented in SEC 10-K filings, supplemented by discussions with 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 (34 of 47)

Alliant Energy Corporation
Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
Black Hills Corporation
Cleco Corporation
CMS Energy Corporation
Consolidated Edison, Inc.
DPL Inc.
Duke Energy Corporation
Edison International
El Paso Electric Company
Entergy Corporation
Eversource Energy
FirstEnergy Corp.
IDACORP, Inc.
IPALCO Enterprises, Inc.

NiSource Inc.
NorthWestern Corporation
OGE Energy Corp.
Otter Tail Corporation
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
PPL Corporation
Puget Energy, Inc.
SCANA Corporation
Southern Company
Unitil Corporation
Vectren Corporation
WEC Energy Group, Inc.
Xcel Energy Inc.

Mostly Regulated (13 of 47)

ALLETE, Inc.
AVANGRID, Inc.
Berkshire Hathaway Energy
CenterPoint Energy, Inc.
Dominion Resources, Inc.
DTE Energy Company
Exelon Corporation
Hawaiian Electric Industries, Inc.
MDU Resources Group, Inc.
MGE Energy, Inc.
NextEra Energy, Inc.
Public Service Enterprise Group
Incorporated
Sempra Energy

Note: Companies shown in italics are not listed on U.S. stock exchanges for one of the following reasons — they are subsidiaries of an independent power producer; they are subsidiaries of foreign-owned companies; or they were acquired by other investment firms.

Stock Performance

HIGHLIGHTS

- Utility stocks trailed the major averages in Q3 as a summer rally extended the 10-year-old bull market. The U.S. economy grew at a 4.2% annual pace in Q2, up sharply from 2.2% in Q1. S&P 500 profits jumped nearly 25% year-to-year in Q1 and Q2, and should climb 20% in Q3. Short- and long-term interest rates are also rising. With this backdrop, it's not surprising that utilities lagged.
- A hot summer across much of the U.S. powered electricity demand 4.2% higher versus last year in Q3 and 4.0% higher for the year through September 30. However, nationwide demand, flat in recent years, fell by 2% in 2017; that was the largest year-to-year decline since 2009.
- The industry's fundamental outlook is little changed in 2018. Most utilities are pursuing infrastructure investment programs focused on regulated operations, and targeting earnings growth rates in the mid-single digits with similar dividend growth.
- A sharp rise in interest rates seems the biggest macro threat. Analysts note the impact would be on stock prices more than earnings. Most companies have embedded low-cost debt and allowed ROEs would likely rise with rates.

COMMENTARY

Utility stocks trailed the major averages during Q3 as a summer rally extended the 10-year-old bull market. While the EEI Index returned a positive 2.0% for the quarter, the Dow Jones Industrials gained a stronger 9.6%, the S&P 500 returned 7.7% and the Nasdaq Composite gained 7.1%. Staid utility stocks generally underperform cyclical and economically sensitive sectors during bull market advances, and trailing 12-month returns reflect this more starkly than Q3. For

I. Index Comparison (% Return)

Index	2012	2013	2014	2015	2016	2017	9 mo. 2018
EEI Index	2.1	13.0	28.9	-3.9	17.4	11.7	2.3
Dow Jones Inds.	10.2	29.6	10.0	0.2	16.5	28.1	8.8
S&P 500	16.0	32.4	13.7	1.4	12.0	21.8	10.6
Nasdaq Comp.^	15.9	38.3	13.4	5.7	7.5	28.2	16.6

Calendar year returns shown for all periods, except where noted.
^Price gain/loss only. Other indices show total return.

Source: EEI Finance Department, S&P Global Market Intelligence

II. Category Comparison (% Return)

U.S. Investor-Owned Electric Utilities

Index	2012	2013	2014	2015	2016	2017	9 mo. 2018
All Companies	4.8	17.3	27.6	-2.0	22.2	11.6	3.5
Regulated	4.7	17.0	28.9	-0.7	21.2	11.7	3.8
Mostly Regulated	5.8	16.0	27.5	-3.7	24.6	11.3	2.7
Diversified	0.8	47.5	6.6	-14.4	25.6	n/a*	n/a*

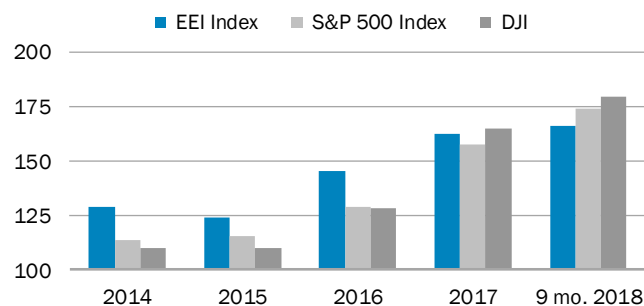
Calendar year returns shown for all periods except where noted.
Returns shown here are unweighted averages of constituent company returns.
The EEI Index return shown in Table I above is cap-weighted.

*Diversified category eliminated in 2017 due to lack of constituent companies.

Source: EEI Finance Department, S&P Global Market Intelligence and company reports

III. Total Return Comparison

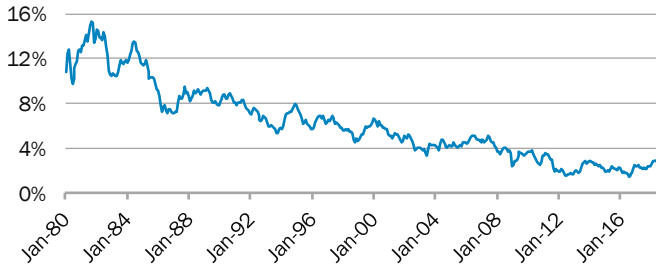
Value of \$100 invested at close on 12/31/2013



Source: EEI Finance Department, S&P Global Market Intelligence

IV. 10-Year Treasury Yield — Monthly

Average Monthly Yield, 1/1/1980 through 9/30/2018



Source: U.S. Federal Reserve

V. 10-Year Treasury Yield — Weekly

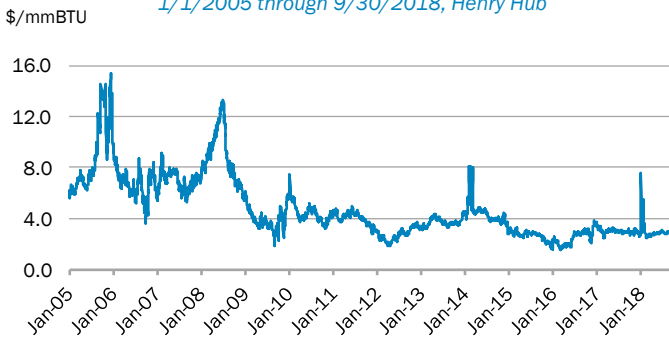
Daily Yield, 1/1/2008 through 9/30/2018



Source: U.S. Federal Reserve

VI. Natural Gas Spot Prices

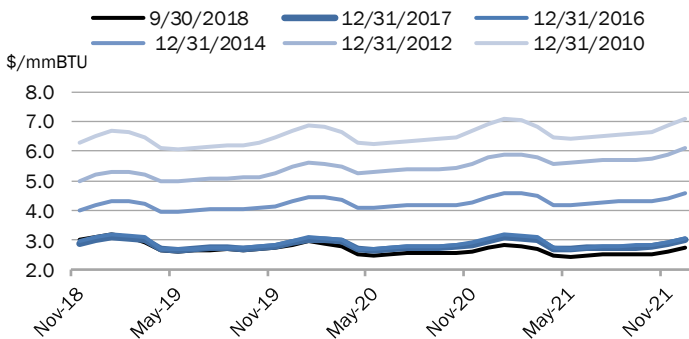
1/1/2005 through 9/30/2018, Henry Hub



Source: S&P Global Market Intelligence

VII. NYMEX Natural Gas Futures

November 2018 through December 2021, Henry Hub



Source: S&P Global Market Intelligence

VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2015			2016			2017			2018		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
EEl Index	1.6	15.6	6.9	-5.4	0.5	6.1	2.4	2.7	0.1	-3.3	3.8	2.0
Dow Jones Industrials	7.7	2.2	2.1	2.8	8.7	5.2	4.0	5.3	11.3	-2.0	1.3	9.6
S&P 500	7.0	1.4	2.5	3.9	3.8	6.1	3.1	4.5	6.6	-0.8	3.4	7.7
Nasdaq Comp. [^]	8.4	-2.8	-0.6	9.7	1.3	9.8	3.9	5.8	6.3	2.3	6.3	7.1

Category*	2015			2016			2017			2018		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
All Companies	2.8	15.5	7.7	-4.3	2.7	5.2	2.5	3.2	0.2	-3.0	5.3	1.4
Regulated	2.8	15.9	7.2	-4.3	1.9	5.8	2.7	3.5	-0.7	-3.5	5.4	2.0
Mostly Regulated	2.6	13.2	10.1	-3.7	3.8	3.9	2.0	2.5	2.5	-1.9	5.0	-0.3
Diversified	4.6	21.6	2.2	-7.8	9.5	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**

[^]Price gain/(loss) only. Other indices show total return. / * Returns shown here are unweighted averages of constituent company returns. The EEl Index return shown above is cap-weighted.
 ** Diversified category eliminated in 2017 due to lack of constituent companies.
 Source: EEl Finance Department, S&P Global Market Intelligence

IX. Sector Comparison, Trailing 9 mo. Total Return

For the nine-month period ending 9/30/2018

Sector	Total Return
Technology	20.4%
Consumer Services	19.2%
Healthcare	17.9%
Oil & Gas	8.3%
Industrials	7.3%
Utilities	3.6%
Financials	3.3%
EEl Index	2.3%
Basic Materials	-2.3%
Telecommunications	-2.5%
Consumer Goods	-4.1%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices.
 Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

X. Sector Comparison, Q3 2018 Total Return

For the three-month period ending 9/30/2018

Sector	Total Return
Healthcare	14.4%
Consumer Services	9.7%
Industrials	9.2%
Technology	9.1%
Telecommunications	7.3%
Financials	4.2%
Utilities	2.5%
EEl Index	2.0%
Consumer Goods	1.3%
Oil & Gas	0.8%
Basic Materials	-0.1%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices.
 Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

XI. Market Capitalization at September 30, 2018 (in \$ Mil.)

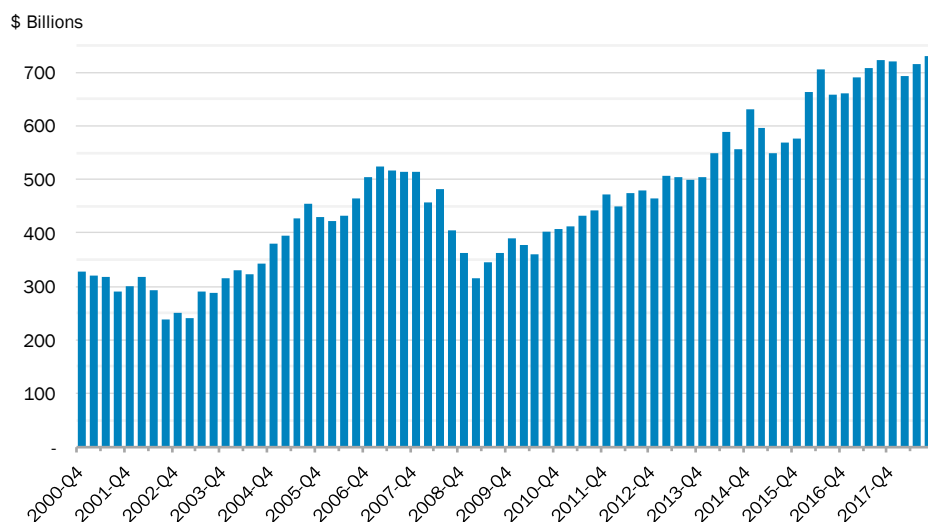
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	78,956	10.89%	CenterPoint Energy, Inc.	CNP	11,932	1.65%
Duke Energy Corporation	DUK	56,254	7.76%	Alliant Energy Corporation	LNT	9,876	1.36%
Dominion Energy, Inc.	D	45,879	6.33%	Pinnacle West Capital Corp.	PNW	8,877	1.22%
Southern Company	SO	44,210	6.10%	NiSource Inc.	NI	8,827	1.22%
Exelon Corporation	EXC	42,219	5.83%	OGE Energy Corp.	OGE	7,253	1.00%
Amer. Electric Power Co., Inc.	AEP	34,922	4.82%	Vectren Corporation	VVC	5,941	0.82%
Sempra Energy	SRE	30,239	4.17%	SCANA Corporation	SCG	5,561	0.77%
Public Svc. Enter. Group Inc.	PEG	26,606	3.67%	MDU Resources Group, Inc.	MDU	5,023	0.69%
Xcel Energy Inc.	XEL	24,077	3.32%	IDACORP, Inc.	IDA	5,005	0.69%
PG&E Corporation	PCG	23,741	3.28%	Portland General Electric Co.	POR	4,069	0.56%
Consolidated Edison, Inc.	ED	23,680	3.27%	Hawaiian Electric Indus., Inc.	HE	3,874	0.53%
Edison International	EIX	22,064	3.04%	ALLETE, Inc.	ALE	3,848	0.53%
WEC Energy Group, Inc.	WEC	21,063	2.91%	Avista Corporation	AVA	3,321	0.46%
PPL Corporation	PPL	20,453	2.82%	PNM Resources, Inc.	PNM	3,151	0.43%
DTE Energy Company	DTE	19,753	2.73%	Black Hills Corporation	BKH	3,099	0.43%
Eversource Energy	ES	19,498	2.69%	NorthWestern Corporation	NWE	2,925	0.40%
FirstEnergy Corp.	FE	17,730	2.45%	EI Paso Electric Company	EE	2,318	0.32%
Ameren Corporation	AEE	15,407	2.13%	MGE Energy, Inc.	MGEE	2,214	0.31%
Eergy, Inc.	EVRG	14,922	2.06%	Otter Tail Corporation	OTTR	1,897	0.26%
AVANGRID, Inc.	AGR	14,835	2.05%	Unitil Corporation	UTL	754	0.10%
Entergy Corporation	ETR	14,670	2.02%				
CMS Energy Corporation	CMS	13,823	1.91%				
				Total Industry		724,766	100.00%

Source: EEI Finance Dept., S&P Global Market Intelligence

XII. EEI Index Market Capitalization (at Period End)

U.S. Investor-Owned Electric Utilities



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

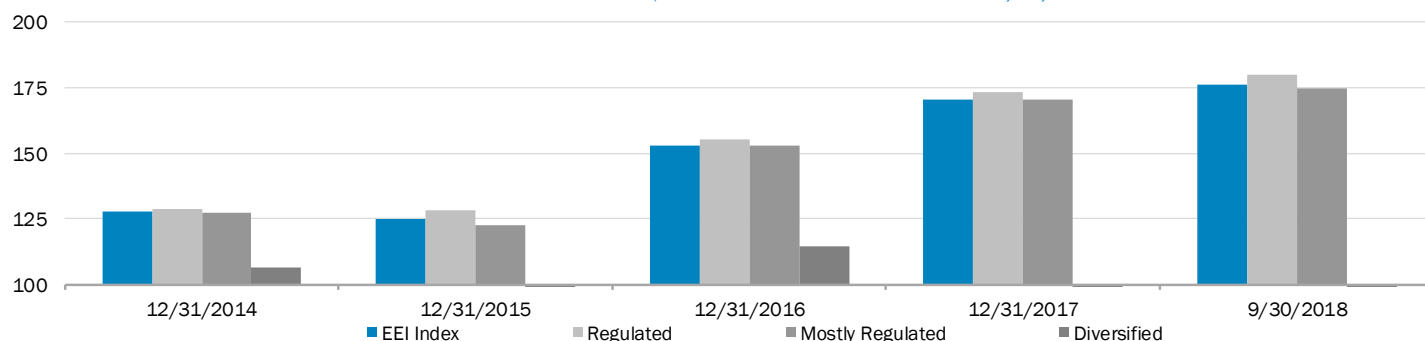
Source: EEI Finance Dept., S&P Global Market Intelligence

EEI Index Market Cap (in \$Millions)

Q1-03	240,598	Q1-11	411,164
Q2-03	289,454	Q2-11	433,236
Q3-03	288,073	Q3-11	442,352
Q4-03	314,324	Q4-11	471,635
Q1-04	329,601	Q1-12	450,597
Q2-04	323,193	Q2-12	475,083
Q3-04	342,460	Q3-12	479,540
Q4-04	380,305	Q4-12	463,916
Q1-05	395,663	Q1-13	507,163
Q2-05	425,989	Q2-13	505,091
Q3-05	454,727	Q3-13	499,776
Q4-05	428,825	Q4-13	504,365
Q1-06	422,899	Q1-14	548,006
Q2-06	432,848	Q2-14	587,735
Q3-06	464,281	Q3-14	557,472
Q4-06	503,858	Q4-14	632,185
Q1-07	525,088	Q1-15	596,851
Q2-07	515,565	Q2-15	549,164
Q3-07	514,946	Q3-15	568,250
Q4-07	514,486	Q4-15	576,819
Q1-08	456,711	Q1-16	662,574
Q2-08	482,024	Q2-16	706,366
Q3-08	404,472	Q3-16	658,728
Q4-08	361,921	Q4-16	659,845
Q1-09	316,070	Q1-17	690,205
Q2-09	343,844	Q2-17	708,329
Q3-09	363,185	Q3-17	722,423
Q4-09	389,672	Q4-17	720,427
Q1-10	377,281	Q1-18	692,282
Q2-10	360,044	Q2-18	716,350
Q3-10	402,014	Q3-18	724,766
Q4-10	407,275		

XIII. Comparative Category Total Annual Returns

U.S. Investor-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2013



	2013	2014	2015	2016	2017	9 mo. 2018
EEI Index Annual Return (%)		27.63	(2.05)	22.21	11.56	3.49
EEI Index Cumulative Return (\$)	100.00	127.63	125.01	152.77	170.43	176.37
Regulated EEI Index Annual Return		28.92	(0.67)	21.16	11.66	3.82
Regulated EEI Index Cumulative Return	100.00	128.92	128.05	155.15	173.24	179.85
Mostly Regulated EEI Index Annual Return		27.46	(3.67)	24.57	11.32	2.65
Mostly Regulated EEI Index Cumulative Return	100.00	127.46	122.78	152.94	170.26	174.77
Diversified EEI Index Annual Return		6.61	(14.43)	25.59	-	-
Diversified EEI Index Cumulative Return	100.00	106.61	91.23	114.57	-	-

Calendar year returns shown, except where noted.

Diversified category eliminated in 2017 due to lack of constituent companies.

Returns are unweighted averages of constituent company returns.

Source: EEI Finance Dept., S&P Global Market Intelligence

the trailing year through September 30, the EEI Index returned 2.5% while the Dow, S&P and Nasdaq all gained about 20%.

The economic picture has certainly been bullish this year. The U.S. economy grew real gross domestic product (GDP) at a 4.2% annual pace in Q2, up sharply from Q1's 2.2% growth rate and the strongest quarterly reading since Q3 2014's 4.9%. The U.S. unemployment rate fell below 4% in July and August, reaching 3.7% in September — its lowest level since 1969. Lifted in part by lower tax rates under the Trump administration's tax reform, corporate profits are booming. Based on earnings data compiled by Zacks Investment Research, S&P 500 profits rose nearly 25% year-to-year in Q1 and Q2, and should grow nearly 20% in Q3. For full-year 2018, S&P 500 profits are set to rise nearly 21%, with another 10% gain expected in 2019. Given this backdrop, it's not surprising that the technology and consumer discretionary sectors have driven the broad market's climb, and that utilities have lagged.

Interest Rate Headwinds

The other primary macroeconomic trend shaping utility stock performance in 2018 has been rising interest rates. Interest

XIV. EEI Index Top Ten Performers

For the nine-month period ending 9/30/2018

Company	% Return	Category
FirstEnergy Corp.	25.1	R
Unitil Corporation	14.1	R
OGE Energy Corp.	13.7	R
Exelon Corporation	13.6	MR
Vectren Corporation	12.1	R
IDACORP, Inc.	10.7	R
Otter Tail Corporation	10.1	R
Edison International	10.0	R
Ameren Corporation	9.6	R
NextEra Energy, Inc.	9.5	MR

Note: Return figures include capital gains and dividends.

R = Regulated, MR = Mostly Regulated

Source: EEI Finance Department

rates remain very low by long-term historical standards, but they are now rising from the rock-bottom levels reached after the financial crisis of 2008/2009. The U.S. Federal Reserve has lifted the overnight rate three times so far in 2018, to about 2.2% in late September from 1.4% in January. The Fed is also slowly but steadily selling the Treasury bonds it accumulated during its three rounds of quantitative easing (QE), now seeking to return monetary policy to some semblance of normality. The 10-year Treasury yield (the risk-free benchmark rate that underlies corporate bond yields) has ground higher this year, rising from 2.5% in January to over 3.2% in late September, its highest level since 2011. Regulated utilities are often viewed by investors as income-producing bond substitutes that offer potential for slowly rising dividends as well as capital appreciation. Rising rates produce the same type of headwind for utility stocks that they do for bonds.

Hot Summer Powers Demand Gains

Short-term changes in power demand that impact utilities' revenue generally result from fluctuations in weather. These rarely shift long-term utility stock trends since the effect is small and transitory. But they can marginally boost or detract from quarterly earnings and may, in some cases, illuminate tightening supply trends in power markets with potential for new generation build.

A hot summer across much of the U.S. has powered electricity demand higher this year. Nationwide demand grew by 4.2% in Q3 and by 4.0% for the first nine months of the year. National Oceanic and Atmospheric Administration (NOAA) data shows nationwide cooling degree days — a measure of air conditioning demand — were 14% higher in Q3 2018 than their 10-year average, and 17% higher versus the same quarter last year. California's statewide average temperature in July surpassed the previous record set in 1931 and the Energy Information Administration (EIA) reports that record-high temperatures in the western U.S. drove peak wholesale electricity prices in July to their highest level since 2008. Eastern seaboard temperatures were hot as well; cooling degree days were 45% above the 10-year average in New England and 30% higher in the mid-Atlantic region.

However, electricity demand has been flat in recent years due to energy efficiency measures and the slow erosion in industrial demand from the changing structure of the U.S. economy. Nationwide demand fell 2% in 2017, the largest year-to-year decline since the 2009 recession year. The temporary demand lift from hot weather this year is not likely to spark any meaningful change in the flat to very slow growth outlook facing the industry.

Assorted Themes Coloring 2018

Aside from the headline macro trends of rising rates and structurally slow demand growth, a variety of assorted themes have colored utility share trends in 2018.

Improving Competitive Power Fortunes

Business fundamentals in the merchant power sector were crushed by the shale gas revolution's impact on natural gas prices and power prices. Natural gas is the price setting fuel in many competitive power markets, and spot gas prices have remained near or below \$3 mm/BTU for several years. The \$5-\$7 mm/BTU price expectations embedded in older-dated futures curves are now history. But the industry has restructured in response. Over the past few years, the remaining independent power producers (IPPs) — Vistra and NRG — have benefitted from more balanced wholesale/retail operations, lower leverage, capital allocation discipline and strong free cash flow. While neither company is included in the EEI Index, NRG's shares climbed 45% for the year ended September 30 while Vista's gained 32%.

Industry analysts noted other positive trends for competitive power generators. Strong power market fundamentals are driving firmer pricing in Texas, and power market reforms may improve the outlook for competitive generators in the PJM region. Illinois, New York and New Jersey have passed legislation that supports baseload nuclear plants.

While most utilities have shed or reduced their merchant operations, 13 of the 47 U.S. investor-owned electric utilities remain in the Mostly Regulated category with some exposure to competitive market trends. Category members Exelon and NextEra were each among the top-ten EEI Index performers for the nine-months ending September 30. First Energy was the top performer in the EEI Index. It benefitted from a transformational equity investment early in 2018 that reduced debt and supported its transition to a fully regulated company focused on rate base growth in its service territories. First Energy was in the Mostly Regulated category last year.

Industry Consolidation

Industry consolidation has been a structural trend for many years. The universe of U.S. investor-owned electric utilities tracked by EEI has fallen to 47 at year-end 2017 from 69 ten years earlier. Recent mergers have focused on cost savings through combinations of complementary utility networks and earnings growth through acquisition of smaller utilities with attractive capital investment opportunities in their service territories.

Dominion announced in early January 2018 that it would seek to buy neighboring utility SCANA. In April 2018, Centerpoint Energy announced a bid for Vectren — a deal the companies said was motivated by synergistic growth opportunities in natural gas distribution. While the SCANA bid impacted its Q4 2017 stock performance, Vectren's merger-related gains made it one of the top-ten performers in the EEI Index over the first nine months of 2018. Several other smaller utilities in the Regulated category also made the top-ten list; these may have received some price support from speculation over potential M&A activity.

Outlook Remains Steady

The industry's fundamental industry outlook has changed little over the course of 2018. Most utilities are seeking earnings growth from regulated rate base investment programs. Most are targeting earnings per share growth rates in the mid-single digits, with a similar dividend growth target. Utility stock moves are caused more by shifts in macroeconomic data and fast-changing investor sentiment than changes in fundamental outlooks — except when company-specific events impact individual utilities.

Investment programs run the gamut — from new renewables generation and new gas-fired generation, transmission and distribution expansion, to smart-grid and reliability-related network hardening. Similar to the devastation wrought by 2012's Superstorm Sandy, the impacts of 2018's hurricanes Florence (mid-September) and Michael (early October) — both of which hit the southeastern U.S. — highlight the case for grid hardening. Michael, in fact, was the strongest tropical storm to hit the U.S. since Hurricane Andrew in 1992 and the strongest ever to hit the Florida panhandle region.

Analysts point out that much of nation's aging baseload generation infrastructure will require replacement in the decades ahead, which could extend the visible horizon for investment planning. That's a far longer time frame than almost any stock market horizon, but it's suggestive of the

responsibility that utilities will be asked to bear assuming the regulated utility, centralized power station business model remains stable. It's also indicative of the long-term steady growth prospects facing the industry, provided regulatory relations remain constructive and customer bills can be shielded from cost inflation. To be sure, it's hard to predict with certainty the long-run impact of electric vehicle adoption, energy efficiency measures, energy storage innovation, smart-grid transformation, rising demand for clean and renewable power, along with the public's need for reliable power around the clock.

Yet over the shorter-term, the industry seems poised to continue to offer dependable earnings and dividends. These virtues are eclipsed by market surges, but they become very attractive in downturns when profits fade elsewhere.

Rising Rates Seen as Main Risk

A sharp rise in interest rates is widely seen as the biggest macro threat facing utility investors in late 2018. Although it's hard to see just what would cause it. CPI inflation ex food and energy has held near 2% throughout the year, even as the economy roars. The main risk to the very-long-lived economic expansion seems weakness rather than red-hot growth. And interest rates would likely fall if economic data turns weak. Analysts note the impact of rising rates would be on stock prices rather than earnings. Higher rates can translate into higher allowed ROEs and improved pension funding. Many companies have embedded low-cost debt from years of low rates, and interest rates still remain very low by historical standards.

But rising rates this year have held utility stocks down, there is little doubt about that. If the industry's fundamental picture remains healthy, utilities have a good chance of offering investors a reliable hedge on broad market weakness caused by a faltering outlook for profits elsewhere — at least as long as interest rates fall too. ■