



Edison Electric  
INSTITUTE

# Stock Performance

Q4 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](http://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

EEI's Regulatory Affairs Division tracks and monitors federal and state regulatory activity, including FERC, rate cases, and state regulatory proceedings across issue areas such as grid modernization, distributed generation, and energy storage, among others.

Edison Electric Institute  
701 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2696  
202-508-5000  
[www.eei.org](http://www.eei.org)

## 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.

## Contacts

### Finance and Analytics

Mark Agnew  
Senior Director, Financial Analysis  
(202) 508-5049, [magnew@eei.org](mailto:magnew@eei.org)

Bill Pfister  
Director, Financial Analysis  
(202) 508-5531, [bpfister@eei.org](mailto:bpfister@eei.org)

Michael Buckley  
Manager, Financial Analysis  
(202) 508-5614, [mbuckley@eei.org](mailto:mbuckley@eei.org)

Devin James  
Manager, Investor Relations & ESG  
(202) 508-5057, [djames@eei.org](mailto:djames@eei.org)

Steve Frauenheim  
Manager, Business Information  
(202) 508-5580, [sfrauenheim@eei.org](mailto:sfrauenheim@eei.org)

### Regulatory

Alison Williams  
Director, State Energy & Regulatory Policy  
(202) 508-5026, [awilliams@eei.org](mailto:awilliams@eei.org)

Molly Garcia  
Manager, State Policy Analysis  
(202) 508-5121, [mgarcia@eei.org](mailto:mgarcia@eei.org)

### Future EEI Finance Meetings

EEI Financial Conference  
November 10-13, 2019  
Orlando World Center Marriott  
Orlando, Florida

For more information about future EEI Finance Meetings, please contact Devin James at (202) 508-5057 or [djames@eei.org](mailto: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 performed well as a portfolio diversifier and reliable hedge on broad market weakness in 2018. The EEI Index gained 1.3% in Q4 and 3.7% for the year, strongly outperforming the major averages by 10 to 12 percentage points for the quarter and seven to eight percent for the year as a whole.
- A hot summer across much of the U.S. powered electricity demand 3.1% higher in 2018. However, nationwide demand, flat in recent years, fell by 2.0% in 2017; that was the largest year-to-year decline since 2009.
- The industry's fundamental outlook was little changed in 2018. Most utilities are pursuing investment programs focused on regulated operations, and targeting earnings growth rates in the mid-single digits with similar dividend growth.
- Rising interest rates seem the biggest potential threat to utility stocks. Analysts view state regulatory relations as balancing the interests of ratepayers, utilities and other stakeholders, with support for investments that advance state renewable energy goals, reliability and jobs creation.

## COMMENTARY

The market's dive in late 2018 gave investors quite a surprise given the optimism that drove major averages higher for most of the year. However, utility stocks performed well as an effective portfolio diversifier and reliable hedge on broad market weakness in both Q4 and for the year as a whole.

At September 30, the EEI Index had gained about 2.2% year-to-date versus more sizeable advances by the Dow Jones Industrials (+8.8%), the S&P 500 (+10.6%) and the Nasdaq

## I. Index Comparison (% Return)

Index	2012	2013	2014	2015	2016	2017	2018
EEI Index	2.1	13.0	28.9	-3.9	17.4	11.7	3.7
Dow Jones Inds.	10.2	29.6	10.0	0.2	16.5	28.1	-3.5
S&P 500	16.0	32.4	13.7	1.4	12.0	21.8	-4.4
Nasdaq Comp.^	15.9	38.3	13.4	5.7	7.5	28.2	-3.9

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	2018
All Companies	4.8	17.3	27.6	-2.0	22.2	11.6	4.3
Regulated	4.7	17.0	28.9	-0.7	21.2	11.7	4.5
Mostly Regulated	5.8	16.0	27.5	-3.7	24.6	11.3	3.6
Diversified	0.8	47.5	6.6	-14.4	25.6	n/a*	n/a*

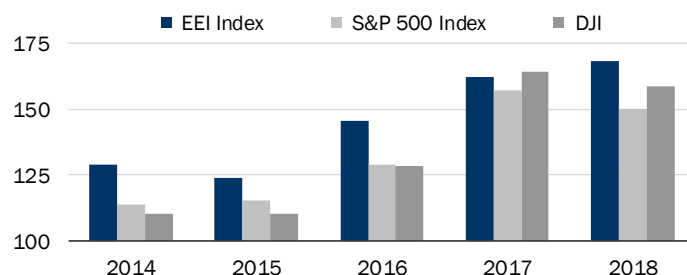
Calendar year returns shown for all periods except where noted.  
Returns shown here are unweighted averages of constituent company returns.  
The EEI Index return shown in Table I above is cap-weighted.

\*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 12/31/2018



Source: U.S. Federal Reserve

### V. 10-Year Treasury Yield — Weekly

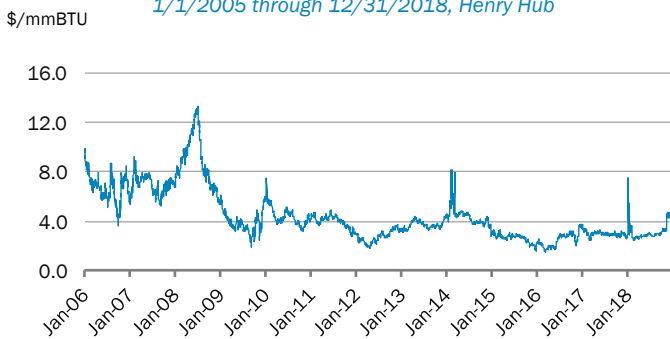
Daily Yield, 1/1/2008 through 12/31/2018



Source: U.S. Federal Reserve

### VI. Natural Gas Spot Prices

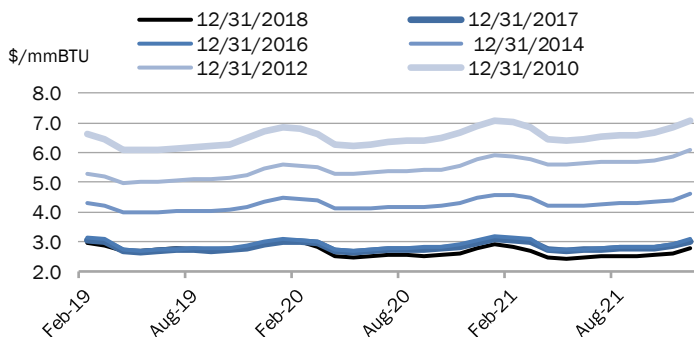
1/1/2005 through 12/31/2018, Henry Hub



Source: S&P Global Market Intelligence

### VII. NYMEX Natural Gas Futures

February 2019 through December 2021, Henry Hub



Source: S&P Global Market Intelligence

### VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EEl Index	15.6	6.9	-5.4	0.5	6.1	2.4	2.7	0.1	-3.3	3.8	2.0	1.3
Dow Jones Industrials	2.2	2.1	2.8	8.7	5.2	4.0	5.3	11.3	-2.0	1.3	9.6	-11.3
S&P 500	1.4	2.5	3.9	3.8	6.1	3.1	4.5	6.6	-0.8	3.4	7.7	-13.5
Nasdaq Comp. <sup>^</sup>	-2.8	-0.6	9.7	1.3	9.8	3.9	5.8	6.3	2.3	6.3	7.1	-17.5

Category*	2016				2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Companies	15.5	7.7	-4.3	2.7	5.2	2.5	3.2	0.2	-3.0	5.3	1.4	0.8
Regulated	15.9	7.2	-4.3	1.9	5.8	2.7	3.5	-0.7	-3.5	5.4	2.0	0.7
Mostly Regulated	13.2	10.1	-3.7	3.8	3.9	2.0	2.5	2.5	-1.9	5.0	-0.3	0.9
Diversified	21.6	2.2	-7.8	9.5	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**

<sup>^</sup>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 3 mo. Total Return

For the three-month period ending 12/31/2018

Sector	Total Return
EEl Index	1.3%
Utilities	0.8%
Telecommunications	-4.4%
Consumer Goods	-9.7%
Healthcare	-9.9%
Financials	-11.9%
Basic Materials	-14.3%
Consumer Services	-14.4%
Industrials	-17.3%
Technology	-17.5%
Oil & Gas	-25.1%

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, 2018 Total Return

For the twelve-month period ending 12/31/2018

Sector	Total Return
Healthcare	6.2%
Utilities	4.4%
EEl Index	3.7%
Consumer Services	2.0%
Technology	-0.6%
Telecommunications	-6.8%
Financials	-9.0%
Industrials	-11.3%
Consumer Goods	-13.4%
Basic Materials	-16.2%
Oil & Gas	-19.0%

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 December 31, 2018 (in \$ Mil.)

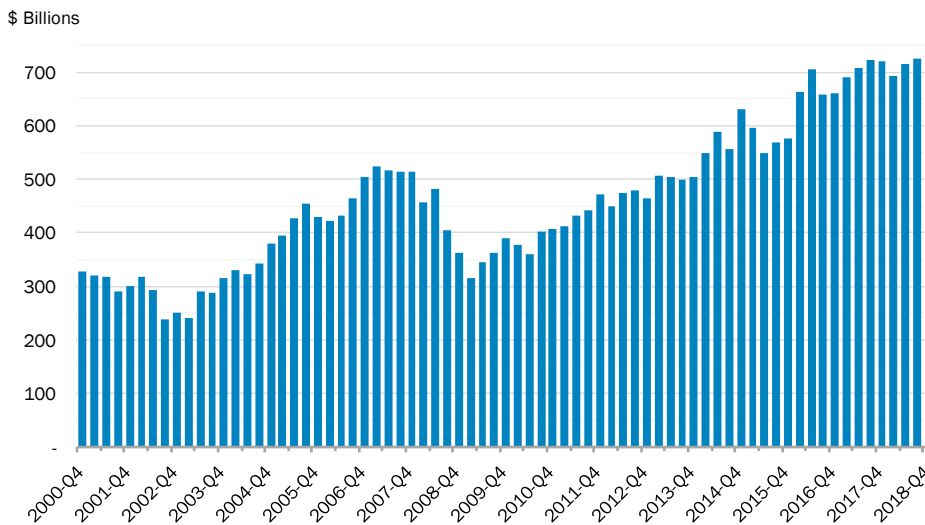
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	82,234	11.24%	CenterPoint Energy, Inc.	CNP	12,183	1.67%
Duke Energy Corporation	DUK	61,532	8.41%	Alliant Energy Corporation	LNT	9,937	1.36%
Dominion Energy, Inc.	D	46,728	6.39%	Pinnacle West Capital Corp.	PNW	9,555	1.31%
Southern Company	SO	44,930	6.14%	NiSource Inc.	NI	9,225	1.26%
Exelon Corporation	EXC	43,657	5.97%	OGE Energy Corp.	OGE	7,826	1.07%
American Electric Power Co., Inc.	AEP	36,846	5.04%	SCANA Corporation	SCG	6,833	0.93%
Sempra Energy	SRE	29,638	4.05%	Vectren Corporation	VVC	5,982	0.82%
Public Svc. Enter. Group Inc.	PEG	26,233	3.59%	IDACORP, Inc.	IDA	4,693	0.64%
Xcel Energy Inc.	XEL	25,128	3.44%	MDU Resources Group, Inc.	MDU	4,673	0.64%
Consolidated Edison, Inc.	ED	23,787	3.25%	Portland General Electric Co.	POR	4,092	0.56%
WEC Energy Group, Inc.	WEC	21,852	2.99%	Hawaiian Electric Industries, Inc.	HE	3,987	0.55%
Eversource Energy	ES	20,641	2.82%	ALLETE, Inc.	ALE	3,918	0.54%
DTE Energy Company	DTE	20,075	2.75%	Black Hills Corporation	BKH	3,350	0.46%
PPL Corporation	PPL	19,937	2.73%	PNM Resources, Inc.	PNM	3,282	0.45%
FirstEnergy Corp.	FE	18,888	2.58%	NorthWestern Corporation	NWE	2,991	0.41%
Edison International	EIX	18,507	2.53%	Avista Corporation	AVA	2,790	0.38%
Ameren Corporation	AEE	15,923	2.18%	MGE Energy, Inc.	MGEE	2,079	0.28%
Entergy Corporation	ETR	15,579	2.13%	El Paso Electric Company	EE	2,032	0.28%
AVANGRID, Inc.	AGR	15,502	2.12%	Otter Tail Corporation	OTTR	1,967	0.27%
Evergy, Inc.	EVRG	15,248	2.09%	Unitil Corporation	UTL	751	0.10%
CMS Energy Corporation	CMS	14,026	1.92%				
PG&E Corporation	PCG	12,279	1.68%				
				<b>Total Industry</b>		<b>731,313</b>	<b>100.00%</b>

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

XII. EEI Index Market Capitalization (at Period End)

U.S. Investor-Owned Electric Utilities



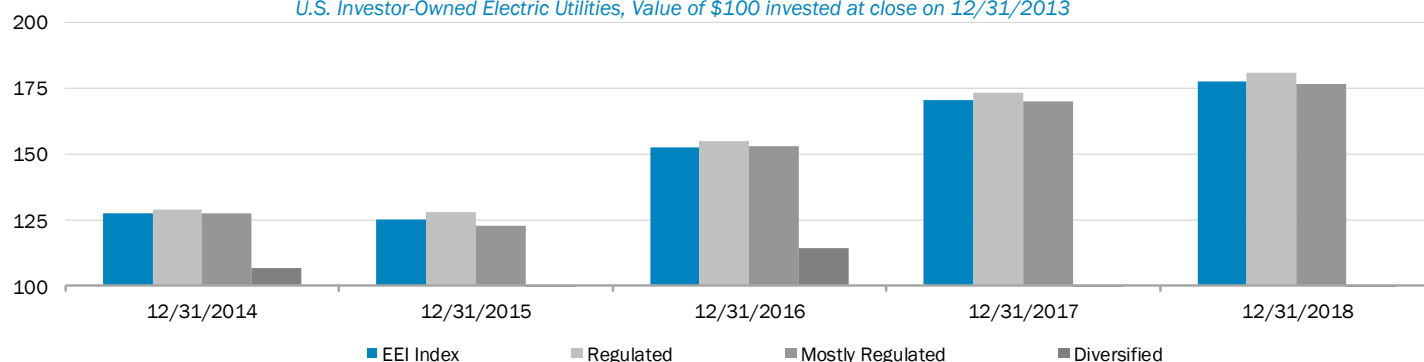
Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.

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	Q4-18	731,313

### 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	2018
EEI Index Annual Return (%)		27.63	(2.05)	22.21	11.56	4.28
EEI Index Cumulative Return (\$)	100.00	127.63	125.01	152.77	170.43	177.73
Regulated EEI Index Annual Return		28.92	(0.67)	21.16	11.66	4.55
Regulated EEI Index Cumulative Return	100.00	128.92	128.05	155.15	173.24	181.11
Mostly Regulated EEI Index Annual Return		27.46	(3.67)	24.57	11.32	3.62
Mostly Regulated EEI Index Cumulative Return	100.00	127.46	122.78	152.94	170.26	176.42
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

(+16.6%). Stocks rose on bullish economic data and strong corporate earnings. Real gross domestic product (GDP) grew at a 4.2% annual pace in Q2 and at 3.4% in Q3, both up from Q1's 2.2% rate and the strongest quarterly readings 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 boomed. Based on earnings data compiled by Zacks Investment Research, S&P 500 profits rose 25% year-to-year in each of the 2018's first three quarters. Given this backdrop, it's not surprising that utilities lagged the major averages.

The broad market had surged 40% since Trump's 2016 election win and may have been primed for a correction. An excuse was given by emerging trade war tensions with China, disappointing global economic data late in the year (with a focus on weakness in China), and a sense that red-hot corporate profit gains were peaking. Indeed, the pace of Q4 corporate earnings gains was revised downward as the quarter progressed, and 2019's profit outlook dimmed along with economic sentiment. The fourth quarter market correction took the Nasdaq Composite down 17.5%, while the S&P 500 and Dow Jones Industrials lost 13.5% and 11.3%, respectively,

### XIV. EEI Index Top Ten Performers

For the nine-month period ending 12/31/2018

Company	% Return	Category
FirstEnergy Corp.	27.7	R
OGE Energy Corp.	23.8	R
SCANA Corporation	23.2	R
Exelon Corporation	18.2	MR
Otter Tail Corporation	14.9	R
Unitil Corporation	14.3	R
NextEra Energy, Inc.	14.3	MR
Ameren Corporation	13.9	R
Vectren Corporation	13.6	R
Eergy, Inc.	10.9	R

Note: Return figures include capital gains and dividends.

R = Regulated, MR = Mostly Regulated

Source: EEI Finance Department



from September highs. These declines fully erased the strong advance through Q3, leaving the major indices with 3% to 4% losses for the full-year. By contrast, the EEI Index gained 1.3% in Q4 and returned a positive 3.7% in 2018, outperforming the major averages by 10 to 12 percentage points in Q4 and about seven to eight percentage points for the year as a whole

### Rate Rally Stalls in Q4

The EEI Index delivered a positive return through the year's first nine months even in the face of rising interest rates. The U.S. Federal Reserve hiked the overnight Fed Funds rate by 25 basis points four times in 2018, to a target range of 2.25% to 2.50% at its December Federal Open Market Committee (FOMC) meeting. The three-month Treasury bill yield rose steadily during the year, from 1.4% in January to 2.4% by December. However, the 10-year Treasury yield is a far more important influence than short-term rates on utility stocks, whose dividend yields give them bond-like qualities but with dividend growth potential. The 10-year yield climbed from 2.5% in January to 3.2% in September in synchronization with strong U.S. economic data, but fell back to 2.7% by late December on fears of slowing growth. The pullback in this widely watched risk-free benchmark yield undoubtedly buttressed utilities' performance in Q4.

### Power Demand Rises 3% in 2018

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 slightly boost or detract from quarterly earnings and may, in some cases, illuminate tightening supply trends in power markets with potential for new generation build and rate base growth.

A hot summer across much of the U.S. powered electricity demand higher in 2018. Electric output grew by 4.2% in Q3 and by 3.1% for the full-year, reaching a record high that marginally surpassed 2007's total output. The gain was largely due to weather, as weather-adjusted output was flat year-to-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 2.0% in 2017, the largest year-to-year decline since the 2009 recession year. The temporary lift from 2018's weather is unlikely to alter the slow demand-growth outlook facing the industry.

### Steady Fundamentals

There was little change in the industry's generally good business fundamentals in 2018.

Demand growth during the key summer cooling season helped power electric utility industry earnings up about 10% year-to-year in Q3. Wall Street analysts also reported that many utility managements in Q4 affirmed and/or slightly raised 2018 earnings guidance along with their capex and rate base growth outlooks for the next several years.

Most utilities have exited unregulated operations and are now seeking earnings growth from regulated rate base investment programs. Most are targeting earnings per share growth rates in the mid-single digits, along with similar dividend growth targets. Investment programs include new renewables generation and new gas-fired generation, transmission and distribution modernization and expansion, smart-grid deployment, and reliability-related network hardening.

Analysts view state regulatory relations as generally fair — balancing the interests of ratepayers, utilities and other stakeholders — with support for investments that advance state renewable energy goals, reliability, jobs creation and the enlarged tax base that comes with it. In recent years, utilities have also successfully advocated for changes to rate design — such as forward test years, rate mechanisms and adjustment clauses — that allow more timely recovery of costs associated with big-ticket capital investment programs. Industry capex has risen from \$74 billion in 2010 to a projected \$127 billion for 2018. Capex was \$40 billion in 2004, the cyclical low following the competitive generation buildout.

Other favorable fundamental trends for regulated utilities include continued low natural gas prices and the generally low level of interest rates. Since regulated utilities pass fuel and interest expense through to customers (and fuel can account for 40% or more of the customer's bill), cost stability in these key areas helps keep bill inflation down and makes it easier to gain regulatory approval for rate base expansion. Despite the steep capex ramp up of recent years, the average nationwide cost of electricity for residential customers has only risen from \$0.1126/kilowatt hour (kWh) in 2008 to \$0.1289/kWh in 2017, which was barely changed from 2014's \$0.1252, according to Energy Information Administration (EIA) data.

### Historically Elevated Valuations

By yearend 2018, Wall Street analysts were unanimous in observing that the industry's stock valuations seemed high whether measured in absolute price/earnings (PE) ratios, PEs relative to the S&P 500, or dividend/earnings yields relative to interest rates. By yearend 2018, all metrics were near the top of their range in recent years. The industry's PE on 2019 earnings is roughly 19, more than the S&P 500's and almost double the electric utility industry's 10 to 12 PE multiple in the late 1990s. Of course, the 10-year Treasury yield was about 6% in the late 1990s, also about double today's sub-3% level.

Low interest rates are no doubt partly responsible for today's seemingly lofty valuations. But industry fundamentals are too. Utilities offer investors the appealing package of mid-single-digit earnings growth and a 3% dividend yield with dividend growth potential, all generated by investment programs that have fairly high predictability, relatively low execution risk and support from state regulators. S&P 500 earnings by contrast are more cyclical and far more subject to the whims of the economic cycle.

It's hard to predict with any certainty the long-run impact of electric vehicle adoption, energy efficiency measures, energy storage innovation, smart-grid transformation, rising demand for renewable power, along with the public's need for reliable power around the clock. But it's likely that the industry will maintain a key role in transforming and modernizing the nation's power network into a true 21st century grid. And much of the nation's aging baseload generation infrastructure will require replacement in the decades ahead, which could extend the visible horizon for utility capex and rate base growth

### Rising Interest Rates Seen as Main Risk

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.

Merger and acquisition (M&A) activity is one company-specific theme. 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 42 at year-end 2017 from 83 at the start of 2000. 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. Both utilities were among the top-ten performers in the EEI Index in 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.

Less favorable is the impact of California's tragic 2017-2018 wildfires on California utilities, which are now working with state regulators and other officials to investigate causes of the fires and develop the best path forward to achieve the state's aggressive renewable energy goals while ensuring California's electric network provides safe, economical and reliable service. [California utility PG&E in January 2019 said it would seek bankruptcy protection while it worked through this process.]

A sharp rise in interest rates is widely seen as the biggest macro threat facing utility investors. Although it's hard to see just what would cause it. CPI inflation excluding volatile food and energy costs (a widely watched inflation benchmark) held near 2% throughout 2018, even as the economy roared. As Q4's sentiment shift showed, the main risk to the very-long-lived economic expansion seems to be weakness rather than more red-hot growth. Interest rates would likely fall if economic data turns weak, as they did in Q4. 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. ■