



Edison Electric  
INSTITUTE

# Stock Performance

Q2 2019  
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 45 U.S. investor-owned electric utility companies. These 45 companies include 40 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:

- Stock Performance
- Dividends
- Credit Ratings
- Rate Review Summary

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

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## 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 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 45 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.*  
Sempra Energy (SRE)  
Southern Company (SO)  
Unitil Corporation (UTL)  
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 12/31/2018)

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 (35 of 45)

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

*IPALCO Enterprises, Inc.*  
MGE Energy, 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.*  
Semptra Energy  
Southern Company  
Unitil Corporation  
WEC Energy Group, Inc.  
Xcel Energy Inc.

### Mostly Regulated (10 of 45)

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

*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

- The EEI Index nearly matched the broad market's strong gain in the first half of 2019, rising 15.7% on a surprising and steady decline in long-term interest rates in the U.S. and in many overseas regions.
- The multi-year stagnation in power demand reasserted itself in the first half of 2019 as electric output fell 4.4% year-to-year. Analysts cited weather and slowing economic growth while some companies also noted the impact of trade tariffs on industrial demand.
- The industry's fundamental outlook was little changed. Utilities continue to pursue investment programs focused on regulated operations and target earnings growth rates in the mid-single digits with similar dividend growth.
- Rising interest rates are widely seen as the biggest macro threat facing utility investors, yet that's been said for years and rates just seem to fall. Stable fuel costs and low interest rates have kept utility bills down even with big investment programs. Pushback on rate increases needed to fund rising capex may become an issue if the economy enters recession and consumer incomes fall.

## COMMENTARY

The EEI Index nearly matched the stock market's strong gain in the first half of 2019, rising 15.7% compared to the Dow Jones Industrial Average's 15.4% return, the S&P 500's 18.5% return and the Nasdaq Composite's 20.7% gain. The broad market recovered from its sharp Q4 2018 decline after the U.S. Federal Reserve signaled it would halt its multi-year rate hike campaign; the overnight Federal Funds rate had risen from 0.0% in late 2015 to 2.5% in December 2018.

## I. Index Comparison (% Return)

Index	2013	2014	2015	2016	2017	2018	6 mo. 2019
EEI Index	13.0	28.9	-3.9	17.4	11.7	3.7	15.7
Dow Jones Inds.	29.6	10.0	0.2	16.5	28.1	-3.5	15.4
S&P 500	32.4	13.7	1.4	12.0	21.8	-4.4	18.5
Nasdaq Comp. <sup>^</sup>	38.3	13.4	5.7	7.5	28.2	-3.9	20.7

Calendar year returns shown for all periods, except where noted.

<sup>^</sup>Price gain/loss only. Other indices show total return.

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

## II. Category Comparison (% Return)

Index	U.S. Investor-Owned Electric Utilities						6 mo.
	2013	2014	2015	2016	2017	2018	2019
All Companies	17.3	27.6	-2.0	22.2	11.6	4.3	16.0
Regulated	17.0	28.9	-0.7	21.2	11.7	4.5	17.1
Mostly Regulated	16.0	27.5	-3.7	24.6	11.3	3.6	11.9
Diversified	47.5	6.6	-14.4	25.6	n/a*	n/a*	n/a*

Calendar year returns shown for all periods except where noted.

Returns shown here are unweighted averages of constituent company returns.

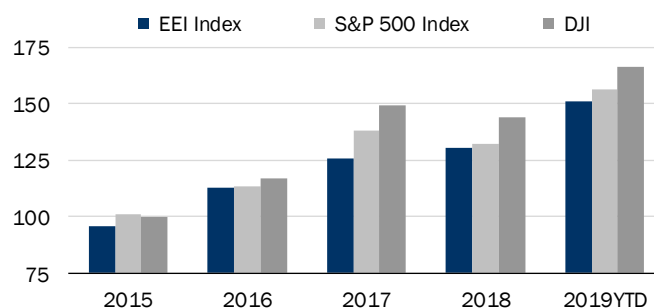
The EEI Index return shown in Table I above is cap-weighted.

\*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 12/31/2014



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

#### IV. 10-Year Treasury Yield — Monthly

Average Monthly Yield, 1/1/1980 through 6/30/2019



Source: U.S. Federal Reserve

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

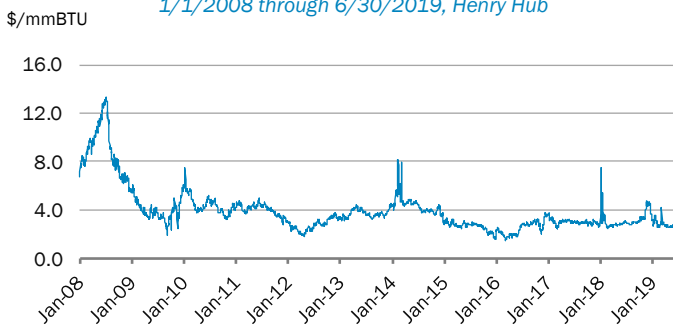
Daily Yield, 1/1/2008 through 6/30/2019



Source: U.S. Federal Reserve

#### VI. Natural Gas Spot Prices

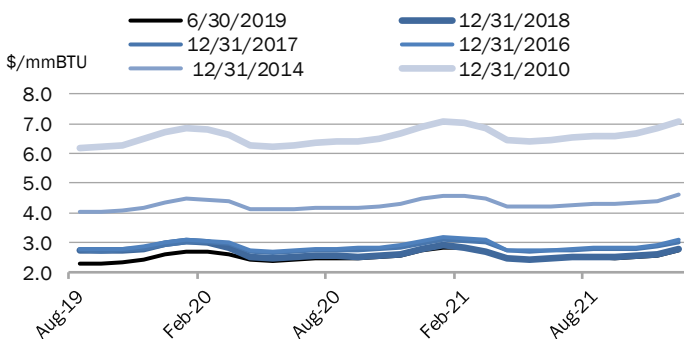
1/1/2008 through 6/30/2019, Henry Hub



Source: S&P Global Market Intelligence

#### VII. NYMEX Natural Gas Futures

August 2019 through December 2021, Henry Hub



Source: S&P Global Market Intelligence

#### VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
EEl Index	-5.4	0.5	6.1	2.4	2.7	0.1	-3.3	3.8	2.0	1.3	11.1	4.1
Dow Jones Industrials	2.8	8.7	5.2	4.0	5.3	11.3	-2.0	1.3	9.6	-11.3	11.8	3.2
S&P 500	3.9	3.8	6.1	3.1	4.5	6.6	-0.8	3.4	7.7	-13.5	13.7	4.3
Nasdaq Comp. <sup>^</sup>	9.7	1.3	9.8	3.9	5.8	6.3	2.3	6.3	7.1	-17.5	16.5	3.6

Category*	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
All Companies	-4.3	2.7	5.2	2.5	3.2	0.2	-3.0	5.3	1.4	0.8	10.6	4.9
Regulated	-4.3	1.9	5.8	2.7	3.5	-0.7	-3.5	5.4	2.0	0.7	10.6	5.9
Mostly Regulated	-3.7	3.8	3.9	2.0	2.5	2.5	-1.9	5.0	-0.3	0.9	10.5	1.3
Diversified	-7.8	9.5	n/a**	n/a**	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 here 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 6 mo. Total Return

For the six-month period ending 06/30/2019

Sector	Total Return
Technology	24.8%
Industrials	24.4%
Consumer Services	21.3%
Financials	19.5%
EEl Index	15.7%
Consumer Goods	15.7%
Basic Materials	14.5%
Utilities	14.4%
Oil & Gas	12.4%
Telecommunications	12.1%
Healthcare	8.8%

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, Trailing 12 mo. Total Return

For the twelve-month period ending 06/30/2019

Sector	Total Return
EEl Index	19.0%
Utilities	18.2%
Telecommunications	15.1%
Consumer Services	13.8%
Technology	12.3%
Industrials	12.2%
Healthcare	12.1%
Financials	9.6%
Consumer Goods	5.8%
Basic Materials	-1.9%
Oil & Gas	-15.2%

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 June 30, 2019 (in \$ Mil.)

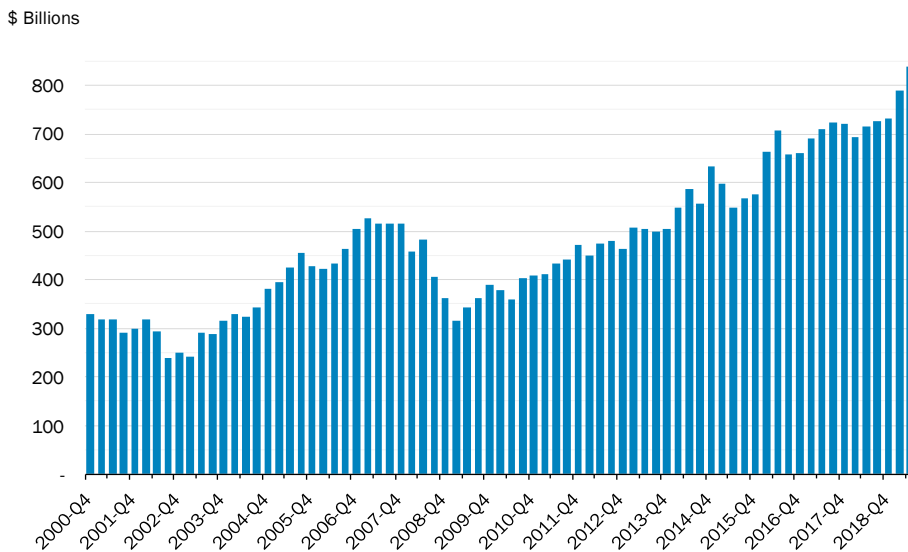
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	97,985	11.69%	CenterPoint Energy, Inc.	CNP	14,359	1.71%
Duke Energy Corporation	DUK	64,150	7.65%	PG&E Corporation	PCG	12,056	1.44%
Dominion Energy, Inc.	D	61,322	7.32%	Alliant Energy Corporation	LNT	11,607	1.38%
Southern Company	SO	57,381	6.85%	NiSource Inc.	NI	10,753	1.28%
Exelon Corporation	EXC	46,550	5.55%	Pinnacle West Capital Corp.	PNW	10,570	1.26%
American Electric Power Co, Inc.	AEP	43,416	5.18%	OGE Energy Corp.	OGE	8,508	1.01%
Sempra Energy	SRE	37,751	4.50%	IDACORP, Inc.	IDA	5,073	0.61%
Xcel Energy Inc.	XEL	30,637	3.65%	MDU Resources Group, Inc.	MDU	5,067	0.60%
Public Service Enter. Group Inc.	PEG	29,645	3.54%	Portland General Electric Co.	POR	4,838	0.58%
Consolidated Edison, Inc.	ED	28,277	3.37%	Hawaiian Electric Industries, Inc.	HE	4,743	0.57%
WEC Energy Group, Inc.	WEC	26,303	3.14%	Black Hills Corporation	BKH	4,684	0.56%
Eversource Energy	ES	24,063	2.87%	ALLETE, Inc.	ALE	4,294	0.51%
DTE Energy Company	DTE	23,274	2.78%	PNM Resources, Inc.	PNM	4,067	0.49%
FirstEnergy Corp.	FE	22,689	2.71%	NorthWestern Corporation	NWE	3,635	0.43%
PPL Corporation	PPL	22,359	2.67%	Avista Corporation	AVA	2,932	0.35%
Edison International	EIX	21,976	2.62%	EI Paso Electric Company	EE	2,654	0.32%
Entergy Corporation	ETR	19,513	2.33%	MGE Energy, Inc.	MGEE	2,534	0.30%
Ameren Corporation	AEE	18,394	2.19%	Otter Tail Corporation	OTTR	2,094	0.25%
CMS Energy Corporation	CMS	16,377	1.95%	Unitil Corporation	UTL	891	0.11%
AVANGRID, Inc.	AGR	15,629	1.86%				
Eergy, Inc.	EVRG	15,206	1.81%				
				<b>Total Industry</b>		<b>838,256</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  
EEI Index Market Cap (in \$Millions)

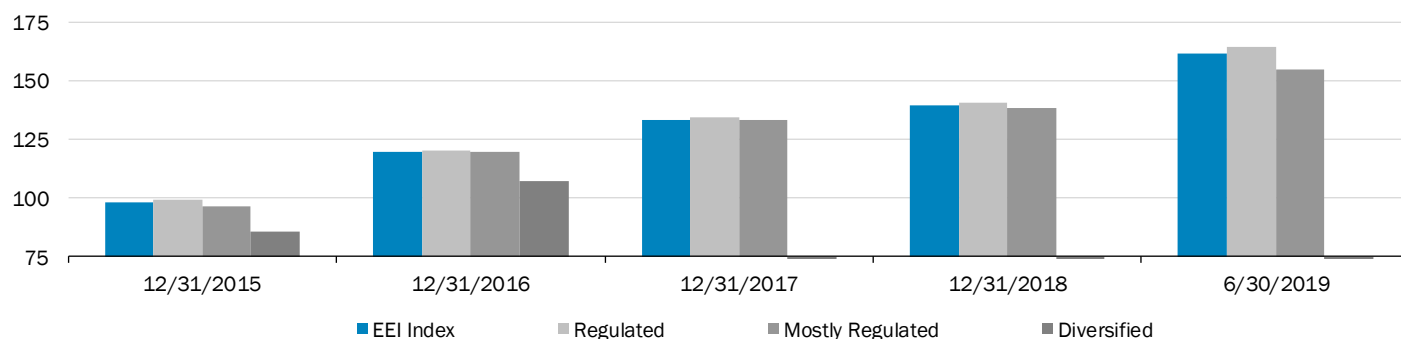


Q3-03	288,073	Q3-11	442,352
Q4-03	314,324	Q4-11	471,635
Q1-04	329,601	Q1-12	450,597
Q2-04	323,193	Q2-12	475,083
Q3-04	342,460	Q3-12	479,540
Q4-04	380,305	Q4-12	463,916
Q1-05	395,663	Q1-13	507,163
Q2-05	425,989	Q2-13	505,091
Q3-05	454,727	Q3-13	499,776
Q4-05	428,825	Q4-13	504,365
Q1-06	422,899	Q1-14	548,006
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
Q1-11	411,164	Q1-19	790,291
Q2-11	433,236	Q2-19	838,256

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

### XIII. Comparative Category Total Annual Returns

U.S. Investor-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2014



	2014	2015	2016	2017	2018	6/30/2019
EEI Index Annual Return (%)		(2.05)	22.21	11.56	4.28	15.96
EEI Index Cumulative Return (\$)	100.00	97.95	119.70	133.54	139.25	161.48
Regulated EEI Index Annual Return		(0.67)	21.16	11.66	4.55	17.14
Regulated EEI Index Cumulative Return	100.00	99.33	120.34	134.37	140.48	164.57
Mostly Regulated EEI Index Annual Return		(3.67)	24.57	11.32	3.62	11.90
Mostly Regulated EEI Index Cumulative Return	100.00	96.33	119.99	133.58	138.41	154.88
Diversified EEI Index Annual Return		(14.43)	25.59	-	-	-
Diversified EEI Index Cumulative Return	100.00	85.57	107.47	-	-	-

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 Fed cited concerns about weak global economic and financial conditions — which some analysts attribute in part to the Trump Administration’s trade tariffs — in its January decision to keep rates steady. Then in July, the Fed lowered the overnight target rate by 25 basis points, its first rate cut since 2008.

The utility sector, widely seen as a defensive sector, typically underperforms a broad market advance. But the first half of 2019 also produced a surprising and steady decline in long-term interest rates in the U.S. and overseas.

In the U.S., the 10-year Treasury yield fell from a high of 2.8% in January to 2.0% by the end of June. Real GDP growth slowed to 2.0% in Q2 from 3.1% in Q1, while Q4 2018 was revised down to just over 1%. Overseas bond market trends likely also powered utility stock gains as long-term rates in most global regions have declined this year. In fact, global government debt with negative yields grew to nearly \$12 trillion in principal value during the first half of 2019, up from \$6 trillion in late 2018, while some 24% of investment-grade bonds globally had negative yields, all according to Bloomberg news reports.

The strange phenomenon of negative yields has colored global bond markets for several years. Yet the trend notably strengthened in the first half of this year. Most European

### XIV. EEI Index Top Ten Performers

For the six-month period ending 6/30/2019

Company	% Return	Category
El Paso Electric Company	32.0	R
Sempra Energy	28.9	R
Southern Company	28.8	R
Black Hills Corporation	26.2	R
PNM Resources, Inc.	25.4	R
NorthWestern Corporation	23.3	R
MGE Energy, Inc.	23.1	R
Xcel Energy Inc.	22.4	R
WEC Energy Group, Inc.	22.1	R
Entergy Corporation	21.8	R

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

government bonds sport negative yields out to the six- to eight-year maturity. And in one widely noted development, the entire German government yield curve went negative in early August, all the way to the 30-year point.

In a global environment of slow economic growth and very low yields, investors seem to favor dependable earnings growth and steady dividend income wherever they can find it. Utility shares benefitted from this trend in the year’s first half.



## U.S. Electric Output Declines

The multi-year stagnation in electric power demand reasserted itself during the first half of 2019. U.S. electric output in the contiguous 48 states actually fell 4.4% from the year-ago level. Part of the shortfall related to mild weather in Q2; cooling degree days fell 11% year-to-year nationwide and more than 40% in the East North Central and West North Central regions of the country. Analysts also noted that slowing economic growth impacted industrial demand, while several utilities cited the impact of trade tariffs on demand from the manufacturing sector.

Lower sales caused Q2 earnings for the electric sector to fall below analyst forecasts, down about 7% versus last year, according to Wall Street reports. However, short-term fluctuations in electric demand and in earnings rarely impact utility stock prices, which are driven by investor perception of long-term earnings outlooks and broad macro factors, such as rising or falling interest rates.

## Steady Industry Fundamentals

There was little change in the industry's stable business fundamentals in 2018. Most utilities have exited unregulated operations and seek earnings growth from regulated rate base investment programs. Most target earnings per share growth rates in the mid-single digits, along with similar dividend growth targets. Investment programs include new renewables generation, new gas-fired generation, transmission and distribution modernization and expansion, smart-grid deployment, and reliability-related network hardening.

Industry analysts seem to view state regulatory relations as generally fair, balancing the interests of ratepayers, utilities and other stakeholders. Most stakeholders across the political spectrum support investments that advance state renewable energy goals, reliability, jobs creation and the enlarged tax base that comes with it. Some utilities have successfully advocated for changes to rate design — such as forward test years, rate mechanisms and adjustment clauses — that allow timely recovery of costs associated with big-ticket capital investment programs and offer some protection from lethargic demand. Several Wall Street analysts during 2019's first half observed that the pace of industry rate base growth is actually picking up a bit versus forecasts last year. This may be a testament to the industry's leading role in transforming the U.S. power industry from a 20<sup>th</sup> century network fueled primarily by coal to a 21<sup>st</sup> century smart grid, powered by clean energy sources, with an ever-growing role played by renewable energy. In April, renewable generation surpassed coal generation for the first time, according to Energy Information Administration (EIA) data; renewable sources provided 23% of total electricity generation in April compared to coal's 20%.

Favorable fundamental trends for regulated utilities in-

clude continued low fuel costs; coal prices have declined steadily since 2011 and natural gas prices have changed little in recent years. Also, the low level of interest rates is beneficial. 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 steep capex growth in recent years, the average nationwide cost of electricity for residential customers has only risen from \$0.1151/kilowatt hour (kWh) in 2009 to \$0.1289/kWh in 2018, which was unchanged from 2017 and only marginally higher than 2014's \$0.1252, according to EIA data.

## Elevated Valuations Rise Farther

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, relative to the S&P 500, or dividend/earnings yields relative to interest rates. Driven by falling interest rates, the EEI Index gained nearly 16% through June anyway. The industry's PE on 2019 earnings is now roughly 20, close to 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, more than triple today's level.

## Rising Interest Rates Seen as Main Risk

A sharp rise in interest rates is widely seen as the biggest macro threat facing utility investors. Although that has been said for years and interest rates just seem to fall. CPI inflation excluding volatile food and energy costs, a widely watched inflation benchmark, held near 2% throughout 2018 even as the economy roared and hasn't moved this year either. The main risk to the very long-lived economic expansion seems to be weakness rather than red-hot growth. Analysts note that 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 could rise while remaining very low by historical standards.

A second, less discussed risk is pushback on rate increases needed to fund capex programs. Stable fuel costs and low interest rates have kept rate pressures muted and Wall Street analysts suggest future bill inflation need not exceed the overall U.S. inflation rate. That may be low enough to avoid trouble. But if the economy enters recession and consumer incomes fall, managing regulatory risk and financing needed capex through customer rates may become more challenging than it has been in recent years. ■