



Edison Electric  
INSTITUTE

# Stock Performance

Q3 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

### 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 Wall Street Briefing  
February 5, 2020  
University Club  
New York, New York

EEI Financial Officers' Meeting  
June 9-10, 2020  
JW Marriott Austin  
Austin, Texas

EEI Financial Conference  
November 8-10, 2020  
JW Marriott Desert Ridge Resort and Spa  
Phoenix, Arizona

For more information about future EEI Finance Meetings, please contact Devin James at (202) 508-5057 or [djames@eei.org](mailto:djames@eei.org), or Aaron Cope, Jr. at (202) 508-5128 or [acope@eei.org](mailto:acope@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 returned 8.2% in Q3 and 26.6% for the 12-months ending September 30, solidly outperforming the broad market's 2% and 4% gains, respectively, for the same periods. The U.S. Fed cut short-term rates twice during Q3. The 10-year Treasury yield reached a low of 1.5% in early September, down from 3.2% a year earlier.
- Electric output fell 0.6% year-to-year in Q3 after a 4.4% decline in Q2. Analysts cited weather and slowing economic growth while some companies also noted the impact of trade tariffs on industrial demand.
- Industry analysts noted the long-term visibility for industry capex, rate base and earnings growth extended farther during Q3. Investors' search for earnings growth in a low-yield, slow-growth, global economy may drive historically high utility share valuations even higher.
- Stable fuel costs and low interest rates have kept utility bills down even as capex has surged. 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 solidly outperformed market averages in Q3, returning 8.2% versus 1.8% for the Dow Jones Industrials, 1.7% for the S&P 500, and -0.1% for the tech-heavy Nasdaq Composite. The broad market's rally paused on fears of slowing economic growth in the U.S. and overseas while falling interest rates, due in part to two Federal Reserve rate cuts during the quarter, powered utility shares higher. The quarter's strength produced a 25.3% total return for the EEI Index

## I. Index Comparison (% Return)

Index	2013	2014	2015	2016	2017	2018	9 mo. 2019
EEI Index	13.0	28.9	-3.9	17.4	11.7	3.7	25.3
Dow Jones Inds.	29.6	10.0	0.2	16.5	28.1	-3.5	17.5
S&P 500	32.4	13.7	1.4	12.0	21.8	-4.4	20.6
Nasdaq Comp.^	38.3	13.4	5.7	7.5	28.2	-3.9	20.6

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							9 mo.
Index	2013	2014	2015	2016	2017	2018	2019
All Companies	17.3	27.6	-2.0	22.2	11.6	4.3	23.5
Regulated	17.0	28.9	-0.7	21.2	11.7	4.5	24.7
Mostly Regulated	16.0	27.5	-3.7	24.6	11.3	3.6	19.3
Diversified	47.5	6.6	-14.4	25.6	n/a*	n/a*	n/a*

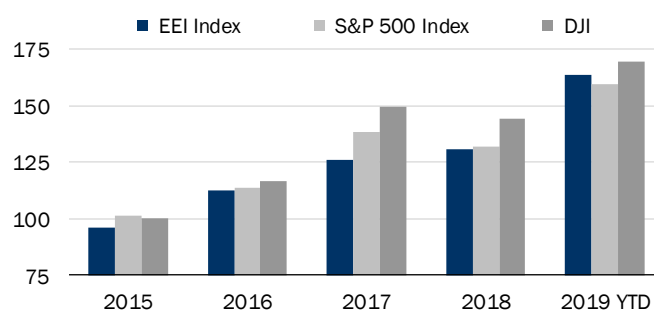
Calendar year returns shown for all periods except where noted.  
Returns shown here are unweighted averages of constituent company returns.  
The EEI Index return shown in Table I above is cap-weighted.

\*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

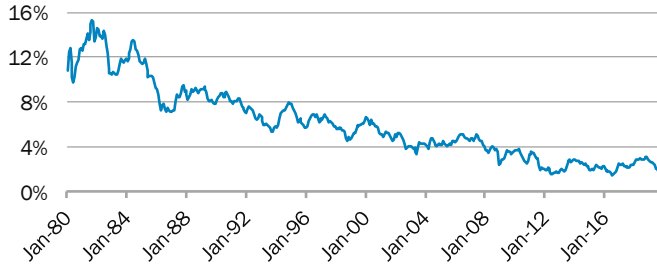
Value of \$100 invested at close on 12/31/2014



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

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

Average Monthly Yield, 1/1/1980 through 9/30/2019



Source: U.S. Federal Reserve

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

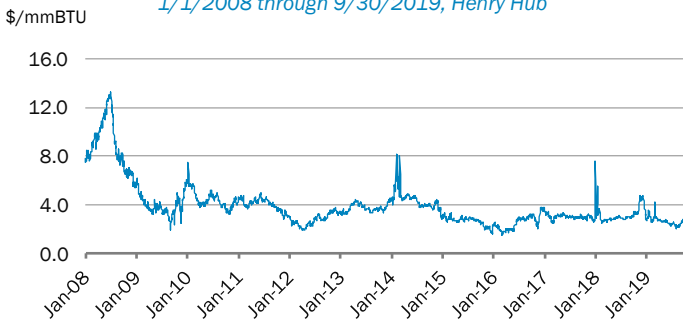
Daily Yield, 1/1/2008 through 9/30/2019



Source: U.S. Federal Reserve

### VI. Natural Gas Spot Prices

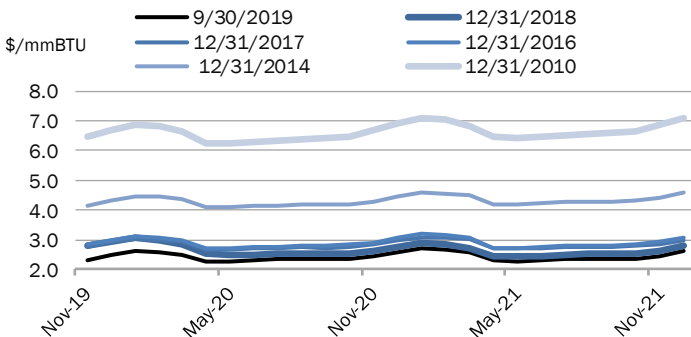
1/1/2008 through 9/30/2019, Henry Hub



Source: S&P Global Market Intelligence

### VII. NYMEX Natural Gas Futures

November 2019 through December 2021, Henry Hub



Source: S&P Global Market Intelligence

### VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
EEl Index	0.5	6.1	2.4	2.7	0.1	-3.3	3.8	2.0	1.3	11.1	4.1	8.2
Dow Jones Industrials	8.7	5.2	4.0	5.3	11.3	-2.0	1.3	9.6	-11.3	11.8	3.2	1.8
S&P 500	3.8	6.1	3.1	4.5	6.6	-0.8	3.4	7.7	-13.5	13.7	4.3	1.7
Nasdaq Comp. <sup>^</sup>	1.3	9.8	3.9	5.8	6.3	2.3	6.3	7.1	-17.5	16.5	3.6	-0.1

Category*	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
All Companies	2.7	5.2	2.5	3.2	0.2	-3.0	5.3	1.4	0.8	10.6	4.9	6.5
Regulated	1.9	5.8	2.7	3.5	-0.7	-3.5	5.4	2.0	0.7	10.6	5.9	6.5
Mostly Regulated	3.8	3.9	2.0	2.5	2.5	-1.9	5.0	-0.3	0.9	10.5	1.3	6.6
Diversified	9.5	n/a**	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 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 09/30/2019

Sector	Total Return
Telecommunications	10.3%
Utilities	8.8%
EEl Index	8.2%
Consumer Goods	4.7%
Technology	3.3%
Financials	3.0%
Industrials	0.7%
Consumer Services	-0.7%
Basic Materials	-2.3%
Healthcare	-2.7%
Oil & Gas	-6.9%

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 09/30/2019

Sector	Total Return
EEl Index	26.6%
Utilities	25.5%
Telecommunications	18.3%
Consumer Goods	9.4%
Financials	8.4%
Technology	6.4%
Industrials	3.5%
Consumer Services	3.1%
Basic Materials	-4.1%
Healthcare	-4.6%
Oil & Gas	-21.7%

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, 2019 (in \$ Billions)

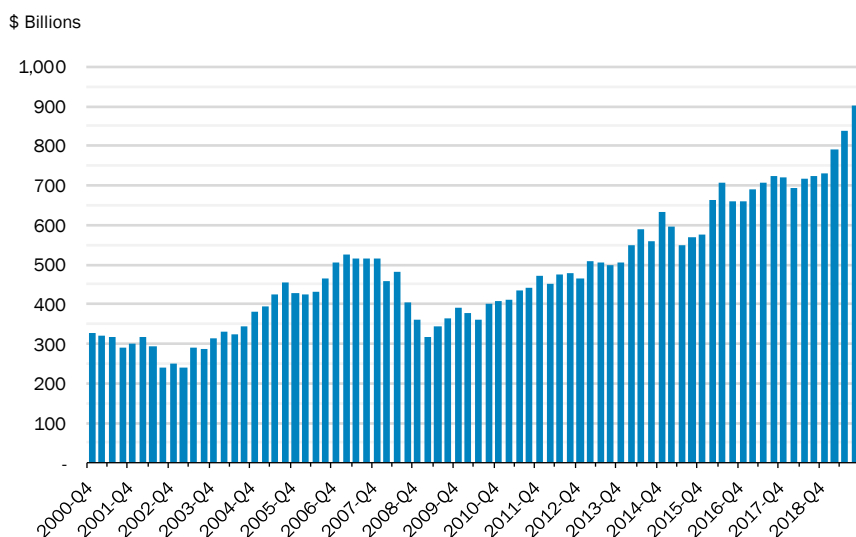
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	111.6	12.36%	CenterPoint Energy, Inc.	CNP	15.2	1.68%
Duke Energy Corporation	DUK	69.8	7.73%	Alliant Energy Corporation	LNT	12.8	1.42%
Dominion Energy, Inc.	D	65.0	7.21%	NiSource Inc.	NI	11.2	1.24%
Southern Company	SO	64.5	7.15%	Pinnacle West Capital Corp.	PNW	10.9	1.21%
Exelon Corporation	EXC	47.0	5.20%	OGE Energy Corp.	OGE	9.1	1.01%
American Electric Power Co., Inc.	AEP	46.2	5.12%	IDACORP, Inc.	IDA	5.7	0.63%
Sempra Energy	SRE	40.6	4.50%	MDU Resources Group, Inc.	MDU	5.6	0.62%
Xcel Energy Inc.	XEL	33.5	3.71%	PG&E Corporation	PCG	5.3	0.59%
Public Service Enter. Group Inc.	PEG	31.3	3.47%	Portland General Electric Co.	POR	5.0	0.56%
Consolidated Edison, Inc.	ED	31.0	3.44%	Hawaiian Electric Industries, Inc.	HE	5.0	0.55%
WEC Energy Group, Inc.	WEC	30.0	3.32%	Black Hills Corporation	BKH	4.6	0.51%
Eversource Energy	ES	27.3	3.03%	ALLETE, Inc.	ALE	4.5	0.50%
FirstEnergy Corp.	FE	25.7	2.84%	PNM Resources, Inc.	PNM	4.2	0.46%
Edison International	EIX	24.6	2.72%	NorthWestern Corporation	NWE	3.8	0.42%
DTE Energy Company	DTE	24.3	2.70%	Avista Corporation	AVA	3.2	0.35%
PPL Corporation	PPL	22.7	2.52%	MGE Energy, Inc.	MGEE	2.8	0.31%
Entergy Corporation	ETR	22.7	2.51%	El Paso Electric Company	EE	2.7	0.30%
Ameren Corporation	AEE	19.7	2.18%	Otter Tail Corporation	OTTR	2.1	0.24%
CMS Energy Corporation	CMS	18.1	2.00%	Unitil Corporation	UTL	0.9	0.10%
Evergy, Inc.	EVRG	16.2	1.79%				
AVANGRID, Inc.	AGR	16.2	1.79%	<b>Total Industry</b>		<b>902.4</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



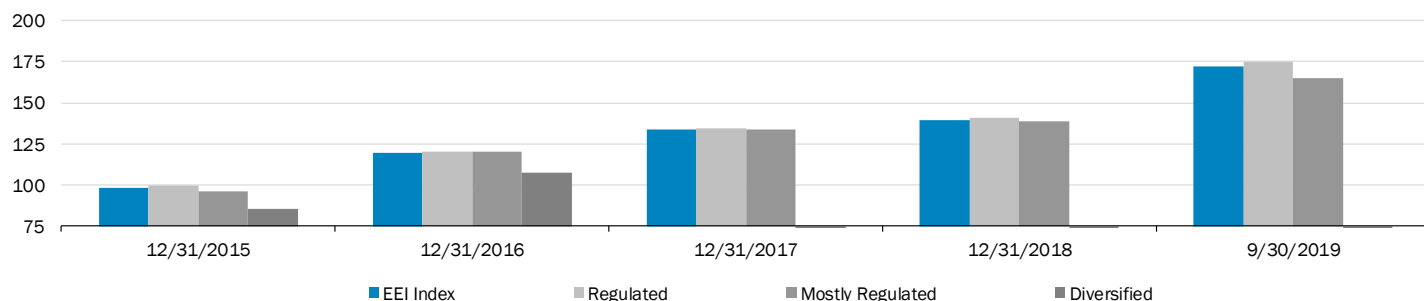
EEI Index Market Cap (in \$ Billions)			
2003-Q4	314	2011-Q4	472
2004-Q1	330	2012-Q1	451
2004-Q2	323	2012-Q2	475
2004-Q3	342	2012-Q3	480
2004-Q4	380	2012-Q4	464
2005-Q1	396	2013-Q1	507
2005-Q2	426	2013-Q2	505
2005-Q3	455	2013-Q3	500
2005-Q4	429	2013-Q4	504
2006-Q1	423	2014-Q1	548
2006-Q2	433	2014-Q2	588
2006-Q3	464	2014-Q3	557
2006-Q4	504	2014-Q4	632
2007-Q1	525	2015-Q1	597
2007-Q2	516	2015-Q2	549
2007-Q3	515	2015-Q3	568
2007-Q4	514	2015-Q4	577
2008-Q1	457	2016-Q1	663
2008-Q2	482	2016-Q2	706
2008-Q3	404	2016-Q3	659
2008-Q4	362	2016-Q4	660
2009-Q1	316	2017-Q1	690
2009-Q2	344	2017-Q2	708
2009-Q3	363	2017-Q3	722
2009-Q4	390	2017-Q4	720
2010-Q1	377	2018-Q1	692
2010-Q2	360	2018-Q2	716
2010-Q3	402	2018-Q3	725
2010-Q4	407	2018-Q4	731
2011-Q1	411	2019-Q1	790
2011-Q2	433	2019-Q2	838
2011-Q3	442	2019-Q3	902

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

### 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	9/30/2019
EEI Index Annual Return (%)		(2.05)	22.21	11.56	4.28	23.52
EEI Index Cumulative Return (\$)	100.00	97.95	119.70	133.54	139.25	172.00
Regulated EEI Index Annual Return		(0.67)	21.16	11.66	4.55	24.74
Regulated EEI Index Cumulative Return	100.00	99.33	120.34	134.37	140.48	175.24
Mostly Regulated EEI Index Annual Return		(3.67)	24.57	11.32	3.62	19.30
Mostly Regulated EEI Index Cumulative Return	100.00	96.33	119.99	133.58	138.41	165.12
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

for the first nine months of the year, well above the 17% to 20% gains posted by the major averages. The EEI Index's relative performance is even more pronounced over the trailing year, as the market's 20% correction last fall/winter created a favorable starting point for the 2019 results. The EEI Index returned 26.6% for the year ending September 30 compared with about 4.3% for the broad market, and surpassed all S&P 500 sectors for the period, edging out the S&P Utilities sector's 25.5% return.

#### Rates Fall on Slowing Economic Growth

Utility shares' aggregate short-term relative performance is typically driven by evolving macroeconomic trends rather than surprises in the industry's slow-changing fundamental outlook. U.S. real gross domestic product (GDP) growth slowed to a 2.0% rate in Q2 and 1.9% in Q3 from 3.1% in Q1. S&P 500 company profits were about flat year-to-year in Q2 and Q3 with revenue up about 4% each quarter, according to Zack's Investment Research data. S&P 500 profits grew more than 20% in calendar year 2018 on nearly 10% revenue growth as the Trump Administration's economic stimulus and reduced tax rates took effect. S&P 500 profits are expected to be about flat for 2019.

The utility sector's predictable mid-single digit earnings

### XIV. EEI Index Top Ten Performers

For the six-month period ending 9/30/2019

Company	% Return	Category
Southern Company	45.3	R
WEC Energy Group, Inc.	40.2	R
Entergy Corporation	39.9	R
Sempra Energy	39.4	R
Edison International	36.5	R
NextEra Energy, Inc.	36.5	MR
El Paso Electric Company	36.2	R
MGE Energy, Inc.	35.1	R
Xcel Energy Inc.	34.4	R
Eversource Energy	34.2	R

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

growth, with similar dividend growth, seems favorable by comparison. Wall Street's outlook remains upbeat for 2020, with corporate profits and revenue set to grow 8% to 9% and just under 5%, respectively. But that forecast is premised on the very long-lived economic expansion finding new life.

The U.S. Federal Reserve cut short-term rates twice during Q3 (on July 31 and September 18), citing continued low inflation and the spillover effect from slowing growth overseas. The Fed Funds target fell from a range of 2.25% to



2.50% in early July to 1.75% to 2.00% by late September. The 10-year Treasury bond yield reached a low of 1.5% in early September, down from a recent peak of 3.2% just a year earlier, before edging higher as the quarter ended.

### U.S. Electric Output Declines

The multi-year stagnation in electric power demand persisted during the first nine months of 2019. U.S. electric output in the contiguous 48 states declined 0.6% in Q3 after falling 4.4% year-to-year in Q2. Part of the shortfall in both quarters was weather-related; cooling degree days fell 11% year-to-year nationwide in Q2 and 2% in Q3, although Q3 was hotter than normal and cooling degree days were more than 20% above the historical average.

Analysts have also cited the impact of trade tariffs on U.S. industrial demand as well as the ongoing impact of years of energy efficiency initiatives nationwide. Softness in load continued to be a point noted in analyst reports during the quarter.

### Industry Growth Outlook Remains Healthy

There was little change in the industry's stable business fundamentals in Q3. In fact, analyst reports roundly noted that the visible horizon for long-term capex and rate base growth seemed to extend even farther into the future. Utility investment programs include new renewables generation, new gas-fired generation, transmission and distribution modernization and expansion, smart-grid deployment, and reliability-related network hardening among other projects. Some analysts questioned whether the growing variety and diversity of programs may be a sign of excess. Nevertheless, they 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 renewable energy goals, reliability, job 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. The vision of an industry poised to deliver mid-single-digit earnings growth, a near 3% dividend yield and dividend growth remained very much in tact as Q3 closed.

### Favorable Cost Trends

Other favorable fundamental trends for regulated utilities include continued low fuel costs. Coal prices have declined steadily since 2011 and natural gas prices have changed little in recent years. The low level of interest rates is also 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. One industry analyst noted in Q3 that electric affordability is the best it has been since 1972, measured as a percent of disposable income, with electricity costs accounting for less than 1% of consumer spending and ranking 13th on the list of household expense burdens.

### Can Elevated Valuations Rise Farther?

Wall Street analysts generally view utility stock valuations as high when measured by price/earnings (PE) ratios relative to the S&P 500 and to history. One reason for this is the very low level of interest rates both in the U.S. and overseas. The U.S. 10-year Treasury yield was about 6% in the late 1990s, more than triple today's level, while bond markets in Europe and Japan sport widespread negative yields. Another reason is the strong fundamentals that underpin prospects for total returns in excess of 8% (5% from earnings growth and 3% from the dividend). Given this outlook, the view seems to be that utilities offer enough value to lift multiples higher still, particularly if global economic growth turns down and interest rates fall to new lows.

### Other Risks

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. Inflation 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 industry analysts expect that trend will continue. 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. ■