



Edison Electric  
INSTITUTE

# Stock Performance

Q4 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 25.8% in 2019, its strongest annual performance since 2014's 28.9%. But the major averages climbed higher on a wall of worry over an economic downturn that never arrived. Falling interest rates through much of the year supported utilities' strong absolute return as well as the broad market's rise.
- The multi-year stagnation in electric power demand persisted in 2019 as electric output fell 1.7% year-to-year. Analysts cited weather and slowing economic growth while some companies noted the impact of trade tariffs on industrial demand.
- Industry analysts said the long-term visibility for industry capex, rate base and earnings growth extended further in 2019. Investors' search for growth in a low-yield, slow-growing global economy may drive historically high utility share valuations even higher.
- Stable fuel costs and low interest rates have kept utility bills down 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 trailed a surging stock market throughout 2019's final quarter, returning 0.4% versus the Dow Jones Industrial Average's 6.7%, the S&P 500 Index's 9.1% and the tech-heavy Nasdaq Composite's 12.2% gain. The market's multi-year rally resumed as growth fears ebbed with improving economic data, easing trade war tensions and another U.S. Federal Reserve rate cut — the third in 2019. Some market watchers also cited the Fed's aggressive inter-

## I. Index Comparison (% Return)

Index	2013	2014	2015	2016	2017	2018	2019
EEI Index	13.0	28.9	-3.9	17.4	11.7	3.7	25.8
Dow Jones Inds.	29.6	10.0	0.2	16.5	28.1	-3.5	25.3
S&P 500	32.4	13.7	1.4	12.0	21.8	-4.4	31.5
Nasdaq Comp.^	38.3	13.4	5.7	7.5	28.2	-3.9	35.2

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	2013	2014	2015	2016	2017	2018	2019
All Companies	17.3	27.6	-2.0	22.2	11.6	4.3	23.1
Regulated	17.0	28.9	-0.7	21.2	11.7	4.5	24.6
Mostly Regulated	16.0	27.5	-3.7	24.6	11.3	3.6	17.9
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.

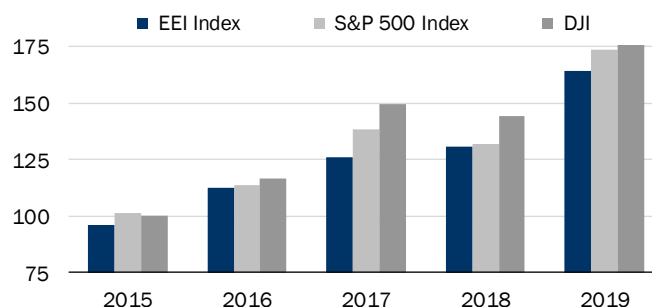
The EEI Index return shown in Table I above is cap-weighted.

\*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 12/31/2019



Source: U.S. Federal Reserve

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

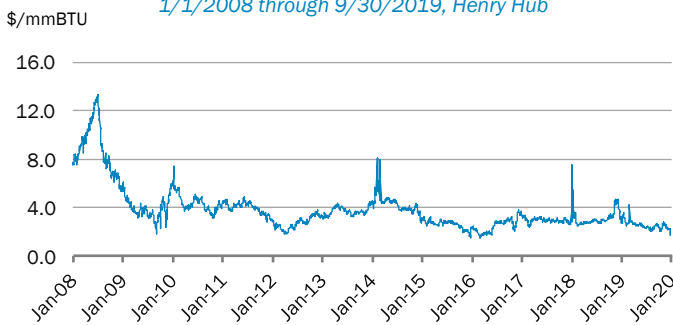
Daily Yield, 1/1/2008 through 12/31/2019



Source: U.S. Federal Reserve

#### VI. Natural Gas Spot Prices

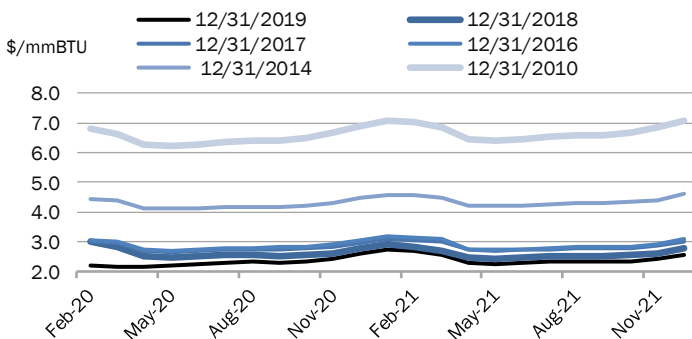
1/1/2008 through 9/30/2019, Henry Hub



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	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
EEl Index	6.1	2.4	2.7	0.1	-3.3	3.8	2.0	1.3	11.1	4.1	8.2	0.4
Dow Jones Industrials	5.2	4.0	5.3	11.3	-2.0	1.3	9.6	-11.3	11.8	3.2	1.8	6.7
S&P 500	6.1	3.1	4.5	6.6	-0.8	3.4	7.7	-13.5	13.7	4.3	1.7	9.1
Nasdaq Comp. <sup>^</sup>	9.8	3.9	5.8	6.3	2.3	6.3	7.1	-17.5	16.5	3.6	-0.1	12.2

Category*	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
All Companies	5.2	2.5	3.2	0.2	-3.0	5.3	1.4	0.8	10.6	4.9	6.5	-0.4
Regulated	5.8	2.7	3.5	-0.7	-3.5	5.4	2.0	0.7	10.6	5.9	6.5	-0.1
Mostly Regulated	3.9	2.0	2.5	2.5	-1.9	5.0	-0.3	0.9	10.5	1.3	6.6	-1.2

<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.  
Source: EEl Finance Department, S&P Global Market Intelligence

#### IX. Sector Comparison, Trailing 3 mo. Total Return

For the three-month period ending 12/31/2019

Sector	Total Return
Healthcare	14.6%
Technology	14.4%
Financials	7.7%
Basic Materials	7.0%
Consumer Goods	6.2%
Industrials	6.0%
Oil & Gas	5.5%
Consumer Services	5.4%
Telecommunications	3.4%
EEl Index	0.4%
Utilities	0.3%

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 12/31/2019

Sector	Total Return
Technology	47.5%
Industrials	32.8%
Financials	32.6%
Consumer Goods	28.7%
Telecommunications	27.9%
Consumer Services	26.9%
EEl Index	25.8%
Utilities	24.9%
Healthcare	21.3%
Basic Materials	19.8%
Oil & Gas	10.4%

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, 2019 (in \$ Millions)

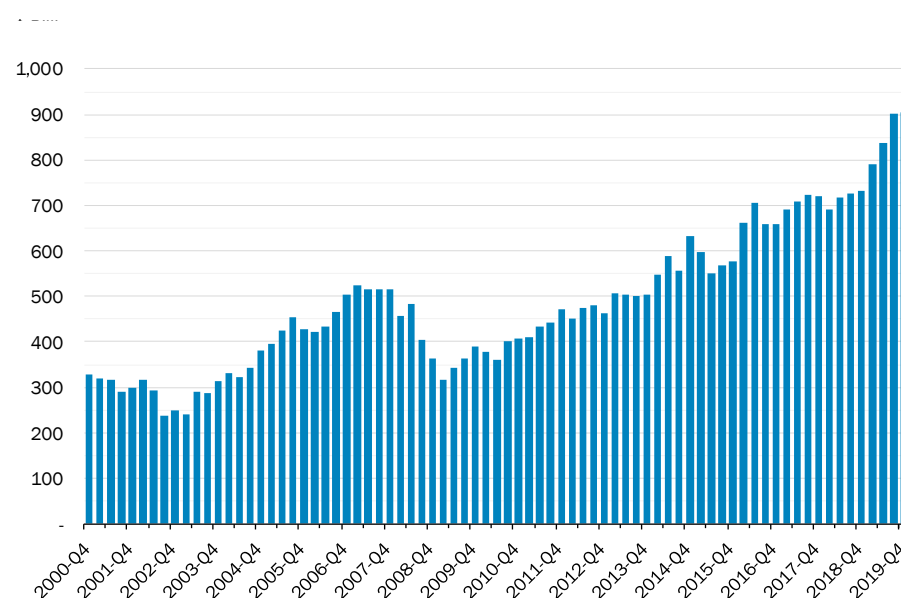
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	116,697	12.89%	CenterPoint Energy, Inc.	CNP	13,696	1.51%
Dominion Energy, Inc.	D	67,333	7.44%	Alliant Energy Corporation	LNT	13,084	1.45%
Southern Company	SO	66,758	7.38%	NiSource Inc.	NI	10,415	1.15%
Duke Energy Corporation	DUK	66,492	7.35%	Pinnacle West Capital Corp.	PNW	10,114	1.12%
American Electric Power Co, Inc.	AEP	46,673	5.16%	OGE Energy Corp.	OGE	8,903	0.98%
Exelon Corporation	EXC	44,359	4.90%	MDU Resources Group, Inc.	MDU	5,922	0.65%
Sempra Energy	SRE	42,014	4.64%	PG&E Corporation	PCG	5,750	0.64%
Xcel Energy Inc.	XEL	32,951	3.64%	IDACORP, Inc.	IDA	5,393	0.60%
Consolidated Edison, Inc.	ED	30,054	3.32%	Hawaiian Electric Industries, Inc.	HE	5,106	0.56%
Public Service Enter. Group Inc.	PEG	29,761	3.29%	Portland General Electric Co.	POR	4,986	0.55%
WEC Energy Group, Inc.	WEC	29,089	3.21%	Black Hills Corporation	BKH	4,789	0.53%
Eversource Energy	ES	27,566	3.05%	ALLETE, Inc.	ALE	4,196	0.46%
Edison International	EIX	26,167	2.89%	PNM Resources, Inc.	PNM	4,057	0.45%
FirstEnergy Corp.	FE	26,147	2.89%	NorthWestern Corporation	NWE	3,615	0.40%
PPL Corporation	PPL	25,915	2.86%	Avista Corporation	AVA	3,187	0.35%
Entergy Corporation	ETR	23,832	2.63%	El Paso Electric Company	EE	2,757	0.30%
DTE Energy Company	DTE	23,766	2.63%	MGE Energy, Inc.	MGEE	2,733	0.30%
Ameren Corporation	AEE	18,885	2.09%	Otter Tail Corporation	OTTR	2,037	0.23%
CMS Energy Corporation	CMS	17,784	1.97%	Unitil Corporation	UTL	921	0.10%
AVANGRID, Inc.	AGR	15,834	1.75%				
Evergy, Inc.	EVRG	15,270	1.69%				
				<b>Total Industry</b>		<b>905,009</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



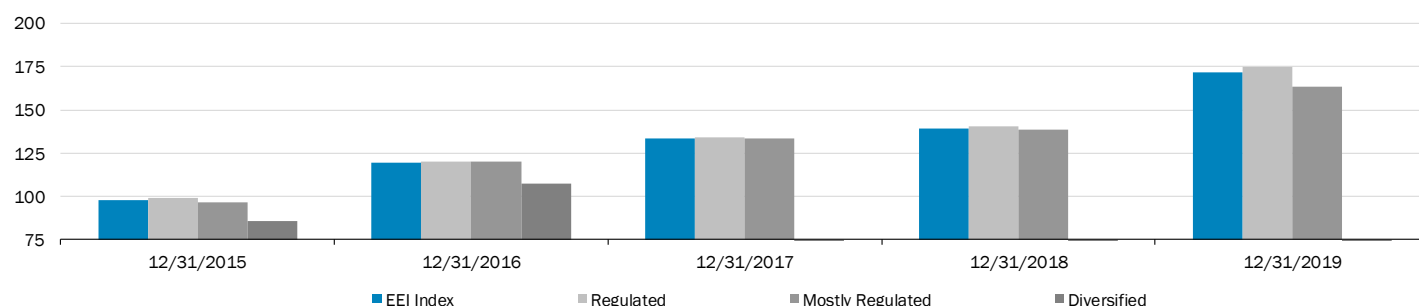
Period	Market Cap (\$ Billions)	Period	Market Cap (\$ Billions)
2004-Q1	330	2012-Q1	451
2004-Q2	323	2012-Q2	475
2004-Q3	342	2012-Q3	480
2004-Q4	380	2012-Q4	464
2005-Q1	396	2013-Q1	507
2005-Q2	426	2013-Q2	505
2005-Q3	455	2013-Q3	500
2005-Q4	429	2013-Q4	504
2006-Q1	423	2014-Q1	548
2006-Q2	433	2014-Q2	588
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
2011-Q4	472	2019-Q4	905

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	2019
EEI Index Annual Return (%)		(2.05)	22.21	11.56	4.28	23.06
EEI Index Cumulative Return (\$)	100.00	97.95	119.70	133.54	139.25	171.36
Regulated EEI Index Annual Return		(0.67)	21.16	11.66	4.55	24.56
Regulated EEI Index Cumulative Return	100.00	99.33	120.34	134.37	140.48	174.99
Mostly Regulated EEI Index Annual Return		(3.67)	24.57	11.32	3.62	17.87
Mostly Regulated EEI Index Cumulative Return	100.00	96.33	119.99	133.58	138.41	163.15
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

vention in the repo market late in the year as a trigger for liquidity-induced market gains. Otherwise, the 10-year Treasury yield pushed higher in Q4 after a year-long decline; this likely pressured utility shares relative to sectors that are more sensitive to economic conditions.

The EEI Index returned nearly 26% for full-year 2019, its strongest annual performance since 2014's 28.9%. But the major averages were even stronger. The Dow returned 25.3% for the year, the S&P 500 Index returned 31.5% and the Nasdaq climbed 35.2%. Beginning and ending dates powerfully shape relative return comparisons. The broad market's 15% fall in Q4 2018 — when utility shares were flat — created a favorable 2019 starting point. Adding 2018's Q4 to 2019 results raises utility returns for the 15-month period well above those of the major averages.

#### Slow Growth but No Recession

Utilities' short-term relative performance as a group typically results from shifting macroeconomic sentiment rather than changes in the industry's fundamental outlook. Indeed, Q4 2019 simply reversed Q3's pattern, when trade-war fears and worrisome economic data kept the broad averages flat while safe-haven utilities gained 8%.

### XIV. EEI Index Top Ten Performers

For the six-month period ending 12/31/2019

Company	% Return	Category
Southern Company	51.3	R
Entergy Corporation	44.0	R
Sempra Energy	43.9	R
NextEra Energy, Inc.	42.6	MR
El Paso Electric Company	38.6	R
Edison International	37.6	R
WEC Energy Group, Inc.	36.8	R
Eversource Energy	34.4	R
MGE Energy, Inc.	33.9	R
FirstEnergy Corp.	33.9	R

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

Major averages climbed a wall of worry in 2019 over an economic downturn that threatened but never arrived. U.S. real gross domestic product (GDP) growth slowed to a 2.0% rate in Q2 and 2.1% in Q3 from 3.1% in Q1. S&P 500 company profits (aggregate rather than per share) were about flat year-to-year in Q2 and Q3 with revenue up 4% each quarter, according to Zack's Investment Research data. Zack's pegs Q4 revenue up 3.5% and income down 2%.



The Trump Administration's economic stimulus and tax cuts made 2018 corporate after-tax profits soar, somewhat distorting 2019's year-to-year comparison. And analysts see revenue and profit growth strengthening again in 2020. That bullish outlook contributed to Q4's market rally.

Falling interest rates through much of 2019 supported utilities' strong absolute return as well as the broad market's rise. The U.S. Federal Reserve cut short-term rates twice during Q3 citing continued low inflation and the spillover effect from slowing growth overseas, and again in late October. The Fed Funds target fell from a 2.25% to 2.50% range in early July to a 1.50% to 1.75% range after the October rate cut. The 10-year Treasury bond yield fell from a recent peak of 3.2% in late 2018 to 1.5% in early September before edging up to 1.9% as the year ended.

### U.S. Electric Output Declines

The multi-year stagnation in electric power demand persisted in 2019. Full-year demand fell 1.7% from 2018's level and annual nationwide generation is largely unchanged from its level in 2007. U.S. electric output declined 0.6% year-to-year in Q3 and 4.4% 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. Cooling degree days were off 5% for the year as a whole while heating degree days were flat. Analysts cited the impact of trade tariffs on U.S. industrial demand as well as years of energy efficiency initiatives nationwide as other reasons for the demand weakness.

### Growth Outlook Remains Healthy

Despite the lackluster demand trend, there was little change in the industry's stable business fundamentals in 2019. Most stakeholders across the political spectrum support investments that advance renewable energy goals, decarbonization, reliability, job creation and the enlarged tax base that comes with it. 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.

Analysts seem to view state regulatory relations as generally fair, balancing the interests of ratepayers, utilities and other stakeholders. 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 prospect of electric vehicle (EV) adoption gained some analytical traction in 2019 as a potential longer-term source of demand growth that also supports decarboniza-

tion when powered by emission-free generation. While technological evolution is notoriously difficult to accurately predict, some estimates suggested widespread EV adoption could boost load by 1% annually over the next few decades.

### Favorable Cost Trends

Another favorable trend for regulated utilities is low fuel costs. Coal prices have declined steadily since 2011, natural gas prices have changed little in recent years and the growing amounts of wind and solar generation added to the grid have zero fuel cost. 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 large investment programs. Despite years of capex growth, the average nationwide cost of electricity for residential customers has 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.

### Top EEI Index Gainers

Several utilities gained 30% to 40% in 2019, in some cases rebounding from previous weakness. Southern Company (+51.3%) was the EEI Index top performer as investors gained confidence in the outlook for completion and commercial operation of its new Vogtle nuclear units and it completed a Georgia rate case near year-end. Entergy (+44.0%) gained on its reduced exposure to wholesale operations and transition back to a regulated utility with several regulatory outcomes that support its investment plans. FirstEnergy (+33.9%) exited its formerly large competitive generation operations and is focused on earnings growth from regulated transmission and distribution investments. Sempra (+43.9%) has also divested non-core assets and is focused on high-growth U.S. regions; in addition, it was impacted less than other California utilities by the devastating wildfires in 2017 and 2018. NextEra (+42.6%) continues to produce strong earnings and dividend growth from its large renewables portfolio and regulated electric/gas pipeline operations in the southeastern U.S.

### Elevated Valuations

At year-end, Wall Street analysts generally viewed utility stock valuations as high when measured by price/earnings (PE) ratios relative to the S&P 500 and to history. One reason for high PEs 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 that drive global investors into relatively safe

positive-yielding investments like utilities. 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). While PEs seem high, utilities may offer enough value to lift multiples higher still 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 didn't move in 2019 either. The main risk to the very long-lived economic expansion seems to be weakness rather than red-hot growth.

A second, less discussed risk is pushback on rate increases needed to fund capex programs. Stable fuel costs and low interest rates have kept bill pressures muted. 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. ■