Stock Performance
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.

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.

Contacts
Mark Agnew
Senior Director, Financial Analysis
(202) 508-5049, magnew@eei.org

Michael Buckley
Senior Manager, Financial Analysis
(202) 508-5614, mbuckley@eei.org

Bill Pfister
Senior Director, Business Analytics
(202) 508-5531, bpfister@eei.org

Steve Frauenheim
Senior Manager, Business Analytics
(202) 508-5580, sfrauenheim@eei.org

Devin James
Manager, Investor Relations & ESG
(202) 508-5057, djames@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.
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)
Evergy, Inc. (EVRG)
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)
Unitek 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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulated</td>
<td>80% or more of total assets are regulated</td>
</tr>
<tr>
<td>Mostly Regulated</td>
<td>Less than 80% of total assets are regulated</td>
</tr>
</tbody>
</table>

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
CMS Energy Corporation
Consolidated Edison, Inc.
Dominion Resources, Inc.
DPL Inc.
Duke Energy Corporation
Edison International
El Paso Electric Company
Entergy Corporation
Evergy, Inc.
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.
Sempra Energy
Southern Company
Unuti 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.
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.

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

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

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

$/mmBTU

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 Q4 Q1 Q2 Q3 Q4 Q1 Q2
EEI 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 Industrial 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. 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 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2
All Companies -4.3 2.7 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 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

*Price gain/(loss) only. Other indices show total return. / * Returns shown here are unweighted averages of constituent company returns. The EEI Index return shown above is cap-weighted. ** Diversified category eliminated in 2017 due to lack of constituent companies.

Source: EEI 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%
EEI 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: EEI 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

EEI 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: EEI Finance Dept., Dow Jones & Company, Google Finance, Y Charts
### XI. Market Capitalization at June 30, 2019 (in $ Mil.)

**U.S. Investor-Owned Electric Utilities**

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock Symbol</th>
<th>$ Market Cap</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>NextEra Energy, Inc.</td>
<td>NEE</td>
<td>97,985</td>
<td>11.69%</td>
</tr>
<tr>
<td>Duke Energy Corporation</td>
<td>DUK</td>
<td>64,150</td>
<td>7.65%</td>
</tr>
<tr>
<td>Dominion Energy, Inc.</td>
<td>D</td>
<td>61,322</td>
<td>7.32%</td>
</tr>
<tr>
<td>Southern Company</td>
<td>SO</td>
<td>57,381</td>
<td>6.85%</td>
</tr>
<tr>
<td>Exelon Corporation</td>
<td>EXC</td>
<td>46,550</td>
<td>5.55%</td>
</tr>
<tr>
<td>American Electric Power Co, Inc.</td>
<td>AEP</td>
<td>43,416</td>
<td>5.18%</td>
</tr>
<tr>
<td>Sempra Energy</td>
<td>SRE</td>
<td>37,751</td>
<td>4.50%</td>
</tr>
<tr>
<td>Xcel Energy Inc.</td>
<td>XEL</td>
<td>30,637</td>
<td>3.65%</td>
</tr>
<tr>
<td>Public Service Enter. Group Inc.</td>
<td>PEG</td>
<td>29,645</td>
<td>3.54%</td>
</tr>
<tr>
<td>Consolidated Edison, Inc.</td>
<td>ED</td>
<td>28,277</td>
<td>3.37%</td>
</tr>
<tr>
<td>WEC Energy Group, Inc.</td>
<td>WEC</td>
<td>26,303</td>
<td>3.14%</td>
</tr>
<tr>
<td>Eversource Energy</td>
<td>ES</td>
<td>24,063</td>
<td>2.87%</td>
</tr>
<tr>
<td>DTE Energy Company</td>
<td>DTE</td>
<td>23,274</td>
<td>2.78%</td>
</tr>
<tr>
<td>FirstEnergy Corp.</td>
<td>FE</td>
<td>22,689</td>
<td>2.71%</td>
</tr>
<tr>
<td>PPL Corporation</td>
<td>PPL</td>
<td>22,359</td>
<td>2.67%</td>
</tr>
<tr>
<td>Edison International</td>
<td>EIX</td>
<td>21,976</td>
<td>2.62%</td>
</tr>
<tr>
<td>Entergy Corporation</td>
<td>ETR</td>
<td>19,513</td>
<td>2.33%</td>
</tr>
<tr>
<td>Ameren Corporation</td>
<td>AEE</td>
<td>18,394</td>
<td>2.19%</td>
</tr>
<tr>
<td>CMS Energy Corporation</td>
<td>CMS</td>
<td>16,377</td>
<td>1.95%</td>
</tr>
<tr>
<td>AVANGRID, Inc.</td>
<td>AGV</td>
<td>15,629</td>
<td>1.86%</td>
</tr>
<tr>
<td>Evergy, Inc.</td>
<td>EVRG</td>
<td>15,206</td>
<td>1.81%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock Symbol</th>
<th>$ Market Cap</th>
<th>% Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CenterPoint Energy, Inc.</td>
<td>CNP</td>
<td>14,359</td>
<td>1.71%</td>
</tr>
<tr>
<td>PG&amp;E Corporation</td>
<td>PCG</td>
<td>12,056</td>
<td>1.44%</td>
</tr>
<tr>
<td>Alliant Energy Corporation</td>
<td>LNT</td>
<td>11,607</td>
<td>1.38%</td>
</tr>
<tr>
<td>NiSource Inc.</td>
<td>NI</td>
<td>10,753</td>
<td>1.28%</td>
</tr>
<tr>
<td>Pinnacle West Capital Corp.</td>
<td>PNW</td>
<td>10,570</td>
<td>1.26%</td>
</tr>
<tr>
<td>OGE Energy Corp.</td>
<td>OGE</td>
<td>8,508</td>
<td>1.01%</td>
</tr>
<tr>
<td>IDACORP, Inc.</td>
<td>IDA</td>
<td>5,073</td>
<td>0.61%</td>
</tr>
<tr>
<td>MDU Resources Group, Inc.</td>
<td>MDU</td>
<td>5,067</td>
<td>0.60%</td>
</tr>
<tr>
<td>Portland General Electric Co.</td>
<td>POR</td>
<td>4,838</td>
<td>0.58%</td>
</tr>
<tr>
<td>Hawaiian Electric Industries, Inc.</td>
<td>HE</td>
<td>4,743</td>
<td>0.57%</td>
</tr>
<tr>
<td>Black Hills Corporation</td>
<td>BKH</td>
<td>4,684</td>
<td>0.56%</td>
</tr>
<tr>
<td>ALLETE, Inc.</td>
<td>ALE</td>
<td>4,294</td>
<td>0.51%</td>
</tr>
<tr>
<td>PNM Resources, Inc.</td>
<td>PNM</td>
<td>4,067</td>
<td>0.49%</td>
</tr>
<tr>
<td>NorthWestern Corporation</td>
<td>NWE</td>
<td>3,635</td>
<td>0.43%</td>
</tr>
<tr>
<td>Avista Corporation</td>
<td>AVA</td>
<td>2,932</td>
<td>0.35%</td>
</tr>
<tr>
<td>El Paso Electric Company</td>
<td>EE</td>
<td>2,654</td>
<td>0.32%</td>
</tr>
<tr>
<td>MGE Energy, Inc.</td>
<td>MGEE</td>
<td>2,534</td>
<td>0.30%</td>
</tr>
<tr>
<td>Otter Tail Corporation</td>
<td>OTTR</td>
<td>2,094</td>
<td>0.25%</td>
</tr>
<tr>
<td>Unility Corporation</td>
<td>UTL</td>
<td>891</td>
<td>0.11%</td>
</tr>
</tbody>
</table>

**Total Industry** 838,256 100.00%

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

### XII. EEI Index Market Capitalization (at Period End)

**U.S. Investor-Owned Electric Utilities**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>EEI Market Cap (in $Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3-03</td>
<td>442,352</td>
</tr>
<tr>
<td>Q3-04</td>
<td>471,635</td>
</tr>
<tr>
<td>Q3-05</td>
<td>497,819</td>
</tr>
<tr>
<td>Q3-06</td>
<td>506,358</td>
</tr>
<tr>
<td>Q3-07</td>
<td>505,091</td>
</tr>
<tr>
<td>Q3-08</td>
<td>499,776</td>
</tr>
<tr>
<td>Q3-09</td>
<td>504,365</td>
</tr>
<tr>
<td>Q3-10</td>
<td>548,006</td>
</tr>
<tr>
<td>Q3-11</td>
<td>557,472</td>
</tr>
<tr>
<td>Q3-12</td>
<td>632,185</td>
</tr>
<tr>
<td>Q3-13</td>
<td>596,851</td>
</tr>
<tr>
<td>Q3-14</td>
<td>549,164</td>
</tr>
<tr>
<td>Q3-15</td>
<td>568,250</td>
</tr>
<tr>
<td>Q3-16</td>
<td>576,819</td>
</tr>
<tr>
<td>Q3-17</td>
<td>662,574</td>
</tr>
<tr>
<td>Q3-18</td>
<td>706,366</td>
</tr>
<tr>
<td>Q3-19</td>
<td>658,728</td>
</tr>
<tr>
<td>Q3-20</td>
<td>695,649</td>
</tr>
<tr>
<td>Q3-21</td>
<td>690,205</td>
</tr>
<tr>
<td>Q3-22</td>
<td>708,329</td>
</tr>
<tr>
<td>Q3-23</td>
<td>722,423</td>
</tr>
<tr>
<td>Q3-24</td>
<td>720,423</td>
</tr>
</tbody>
</table>

Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.
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 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 20th century network fueled primarily by coal to a 21st 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 include 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.