



**EDISON ELECTRIC
INSTITUTE**

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Stock Performance

**Q4 2013
FINANCIAL UPDATE**

QUARTERLY REPORT
OF THE U.S. SHAREHOLDER-OWNED
ELECTRIC UTILITY INDUSTRY

About EEI

The Edison Electric Institute (EEI) is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans, operate in all 50 states and the District of Columbia, and directly employ more than 500,000 workers. With more than \$85 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. Reliable, affordable, and sustainable electricity powers the economy and enhances the lives of all Americans. EEI has 70 international electric companies as Affiliate Members, and 250 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 financial updates present industry trend analyses and financial data covering 55 U.S. shareholder-owned electric utility companies. These 55 companies include 49 electric utility holding companies whose stocks are traded on major U.S. stock exchanges and six electric utilities who are subsidiaries of non-utility or foreign companies. Financial updates are published for the following topics:

Dividends	Rate Case Summary
Stock Performance	SEC Financial Statements (Holding Companies)
Credit Ratings	FERC Financial Statements (Regulated Utilities)
Construction	Fuel

For EEI Member Companies

The EEI Finance and Accounting Division is developing 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 financial publications and industry data sets best address the needs of member companies and the financial community. We welcome your comments, suggestions and inquiries.

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Future EEI Finance Meetings

EEI International Utility Conference
March 9-12, 2014
London Hilton on Park Lane
London, United Kingdom

For more information about EEI Finance Meetings, please contact Debra Henry, (202) 508-5496, dhenry@eei.org

The 55 U.S. Shareholder-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)	Entergy Corporation (ETR)	Pinnacle West Capital Corporation (PNW)
Alliant Energy Corporation (LNT)	Exelon Corporation (EXC)	PNM Resources, Inc. (PNM)
Ameren Corporation (AEE)	FirstEnergy Corp. (FE)	Portland General Electric Company (POR)
American Electric Power Company, Inc. (AEP)	Great Plains Energy Incorporated (GXP)	PPL Corporation (PPL)
Avista Corporation (AVA)	Hawaiian Electric Industries, Inc. (HE)	Public Service Enterprise Group Inc. (PEG)
Black Hills Corporation (BKH)	<i>Iberdrola USA</i>	<i>Puget Energy, Inc.</i>
CenterPoint Energy, Inc. (CNP)	IDACORP, Inc. (IDA)	SCANA Corporation (SCG)
Cleco Corporation (CNL)	Integrus Energy Group, Inc. (TEG)	Sempra Energy (SRE)
CMS Energy Corporation (CMS)	<i>IPALCO Enterprises, Inc.</i>	Southern Company (SO)
Consolidated Edison, Inc. (ED)	MDU Resources Group, Inc. (MDU)	TECO Energy, Inc. (TE)
Dominion Resources, Inc. (D)	MGE Energy, Inc. (MGEE)	UIL Holdings Corporation (UIL)
<i>DPL, Inc.</i>	<i>MidAmerican Energy Holdings Company</i>	Unitil Corporation (UTL)
DTE Energy Company (DTE)	NextEra Energy, Inc. (NEE)	UNS Energy Corporation (UNS)
Duke Energy Corporation (DUK)	NiSource Inc. (NI)	Vectren Corporation (VVC)
Edison International (EIX)	Northeast Utilities (NU)	Westar Energy, Inc. (WR)
El Paso Electric Company (EE)	NorthWestern Corporation (NWE)	Wisconsin Energy Corporation (WEC)
Empire District Electric Company (EDE)	OGE Energy Corp. (OGE)	Xcel Energy, Inc. (XEL)
<i>Energy Future Holdings Corp.</i> (formerly TXU Corp.)	Otter Tail Corporation (OTTR)	
	Pepco Holdings, Inc. (POM)	
	PG&E Corporation (PCG)	

Companies Listed by Category

(as of 12/31/12)

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	80%+ of total assets are regulated
Mostly Regulated	50% to 80% of total assets are regulated
Diversified	Less than 50% of total assets are regulated

Categorization of the 49 publicly traded utility holding companies is based on year-end business segmentation data presented in 10Ks, supplemented by discussions with company IR departments. Categorization of the six non-publicly traded companies (*shown in italics*) is based on estimates derived from FERC Form 1 data 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 (36 of 55)

ALLETE, Inc.
Alliant Energy Corporation
Ameren Corporation
American Electric Power Company, Inc.
Avista Corporation
Black Hills Corporation
Cleco Corporation
CMS Energy Corporation
Consolidated Edison, Inc.
DPL, Inc.
DTE Energy Company
Duke Energy Corporation
Edison International
El Paso Electric Company
Empire District Electric Company
Entergy Corporation
Great Plains Energy Incorporated
Iberdrola USA
IDACORP, Inc.
Integrus Energy Group
IPALCO Enterprises, Inc.

Northeast Utilities
NorthWestern Energy
PG&E Corporation
Pinnacle West Capital Corporation
PNM Resources, Inc.
Portland General Electric Company
Puget Energy, Inc.
Southern Company
TECO Energy, Inc.
UIL Holdings Corporation
Unitil Corporation
UNS Energy Corporation
Westar Energy, Inc.
Wisconsin Energy Corporation
Xcel Energy, Inc.

Mostly Regulated (17 of 55)

CenterPoint Energy, Inc.
Dominion Resources, Inc.
Exelon Corporation
First Energy Corp.
Hawaiian Electric Industries, Inc.

MGE Energy, Inc.
MidAmerican Energy Holdings
NextEra Energy, Inc.
NiSource Inc.
OGE Energy Corp.
Otter Tail Corporation
Pepco Holdings, Inc.
PPL Corporation
Public Service Enterprise Group, Inc.
SCANA Corporation
Sempra Energy
Vectren Corporation

Diversified (2 of 55)

Energy Future Holdings
MDU Resources Group, Inc.

Note: Based on assets at 12/31/12

Stock Performance

HIGHLIGHTS

- The EEI Index returned 2.4% for the fourth quarter of 2013, trailing the broad market's 10% gains triggered by a strengthening economy and the U.S. Federal Reserve's decision to delay any significant "tapering" in its aggressive support for financial markets.
- For full-year 2013, the EEI Index's 13.0% return trailed the broad market's 30% to 40% surge. Utility shares typically lag when bullish spirits dominate markets and investors favor industries with stronger potential for profit growth in a growing economy.
- Rising interest rates weighed on utility share prices throughout the year's second half, while weak power demand fundamentals and the multi-year bear market in natural gas and competitive power prices continued to depress the outlook for competitive generation.
- Analysts continue to predict mid-single-digit earnings growth for many utilities over the next several years, driven in large measure by elevated capital investment spending, while most dividends seem reasonably secure. But weak power demand and generation fundamentals are eroding growth forecasts in some cases.

COMMENTARY

The EEI Index returned a positive 2.4% for the fourth quarter, capping a volatile year for utility shares in which the generally slow-moving changes in industry fundamentals were overwhelmed by U.S. Federal Reserve monetary policy decisions as the key driver of share price moves. The broad market surged 10% in the year's final quarter, supported by signs of strength in the U.S. economy along with the Federal Reserve's decision in September to postpone any slowdown in its aggressive quantitative easing (QE) program (i.e. the

I. Index Comparison (% Return)

Index	2007	2008	2009	2010	2011	2012	2013
EEI Index	16.6	-25.9	10.7	7.0	20.0	2.1	13.0
Dow Jones Inds.	8.9	-31.9	22.7	14.1	8.4	10.2	29.6
S&P 500	5.5	-37.0	26.5	15.1	2.1	16.0	32.4
Nasdaq Comp.^	9.8	-40.5	43.9	16.9	-1.8	15.9	38.3

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

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

Source: EEI Finance Department

II. Category Comparison (% Return)

U.S. Shareholder-Owned Electric Utilities

Index	2007	2008	2009	2010	2011	2012	2013
All Companies	9.8	-20.9	14.1	11.9	21.4	4.8	17.3
Regulated	7.8	-15.6	14.2	15.8	22.3	4.7	17.0
Mostly Regulated	9.9	-27.0	15.6	8.5	19.5	5.8	16.0
Diversified	18.5	-33.9	8.1	-5.2	21.4	0.8	47.5

Calendar year returns shown for all periods except where noted.

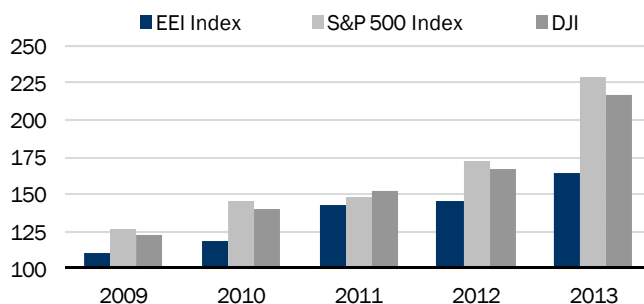
Returns shown here are unweighted averages of constituent company returns.

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

Source: EEI Finance Department, SNL Financial and company annual reports.

III. Total Return Comparison

Value of \$100 invested at close on 12/31/2008

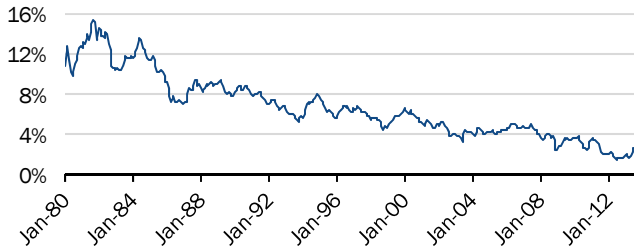


Note: Year end, except where noted.

Source: EEI Finance Department, SNL Financial

IV. 10-Year Treasury Yield — Monthly

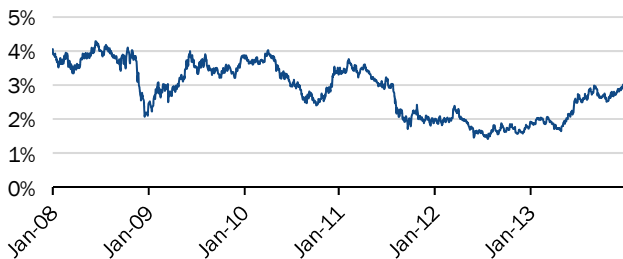
Average Monthly Yield, 1/1/80 through 12/31/13



Source: U.S. Federal Reserve

V. 10-Year Treasury Yield — Daily

Daily Yield, 1/1/08 through 12/31/13



Source: U.S. Federal Reserve

VI. Natural Gas Spot Prices

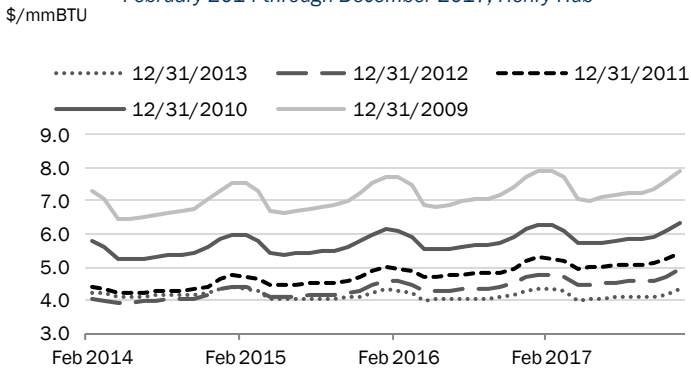
1/1/05 through 12/31/13, Henry Hub



Source: SNL Financial

VII. NYMEX Natural Gas Futures

February 2014 through December 2017, Henry Hub



Source: SNL Financial

VIII. Returns by Quarter

U.S. Shareholder-Owned Electric Utilities

Index	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
EEl Index	2.9	5.7	1.8	8.4	-1.4	6.6	-0.4	-2.5	13.3	-2.2	-0.4	2.4
Dow Jones Industrials	7.1	1.4	-11.5	12.8	8.8	-1.8	2.9	0.2	11.9	3.0	2.1	10.2
S&P 500	5.9	0.1	-13.9	11.8	12.6	-2.8	6.3	-0.4	10.6	2.9	5.2	10.5
Nasdaq Comp. ^A	4.8	-0.3	-12.9	7.9	18.7	-5.1	6.2	-3.1	8.2	4.2	10.8	10.7

Category*	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4
All Companies	4.8	5.9	-0.3	9.7	-0.6	5.6	0.9	-1.0	13.9	-0.7	-0.1	3.8
Regulated	5.4	6.4	-1.0	10.2	-0.5	5.9	1.0	-1.6	13.0	0.4	-1.1	4.3
Mostly Regulated	3.6	4.7	1.1	9.0	-1.0	5.6	1.8	-0.7	15.8	-3.4	1.4	2.3
Diversified	8.9	6.1	-3.6	8.9	1.0	5.2	-2.2	-3.1	15.0	7.6	8.6	9.9

* Returns shown here are unweighted averages of constituent company returns. The EEl Index return shown above is cap-weighted.

Source: EEl Finance Department, SNL Financial and company annual reports.

IX. Sector Comparison, Trailing 12 mo. Total Return

For the twelve-month period ending 12/31/13

Sector	Total Return
Consumer Services	42.2%
Healthcare	42.0%
Industrials	40.6%
Financials	34.2%
Consumer Goods	30.6%
Technology	27.0%
Oil & Gas	26.1%
Basic Materials	20.4%
Utilities	15.2%
Telecommunications	14.1%
EEl Index	13.0%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_US_Indexes_Industry_Indexes_Fact_Sheet.pdf
Source: EEl Finance Dept., Dow Jones & Company, Yahoo! Finance

X. Sector Comparison, Q4 2013 Total Return

For the three-month period ending 12/31/13

Sector	Total Return
Technology	12.8%
Industrials	12.4%
Consumer Services	11.3%
Basic Materials	10.9%
Financials	10.0%
Healthcare	9.4%
Consumer Goods	8.0%
Oil & Gas	7.8%
Telecommunications	6.8%
Utilities	3.0%
EEl Index	2.4%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_US_Indexes_Industry_Indexes_Fact_Sheet.pdf
Source: EEl Finance Dept., Dow Jones & Company, Yahoo! Finance

XI. Market Capitalization at December 31, 2013 (in \$ Mil.)

U.S. Shareholder-Owned Electric Utilities

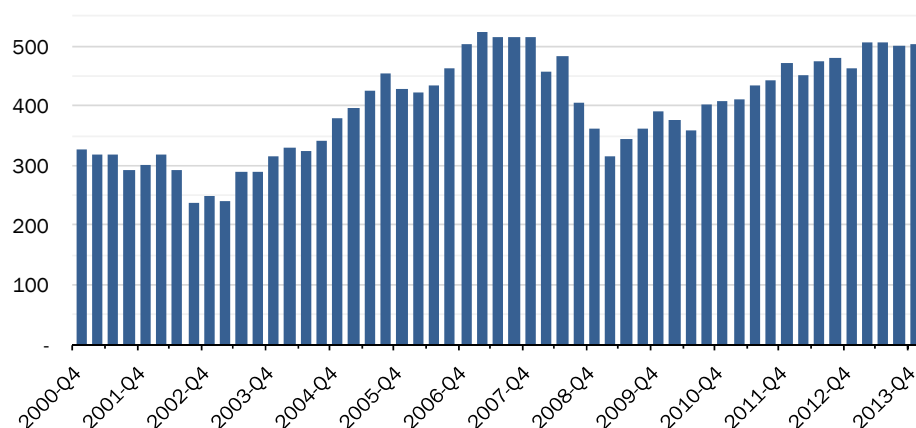
Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
Duke Energy Corporation	DUK	48,721	9.66%	MDU Resources Group, Inc.	MDU	5,769	1.14%
Dominion Resources, Inc.	D	37,481	7.43%	Alliant Energy Corporation	LNT	5,716	1.13%
NextEra Energy, Inc.	NEE	36,286	7.19%	Pepco Holdings, Inc.	POM	4,763	0.94%
Southern Company	SO	36,095	7.16%	Integrus Energy Group, Inc.	TEG	4,342	0.86%
Exelon Corporation	EXC	23,473	4.65%	Westar Energy, Inc.	WR	4,100	0.81%
American Electric Power Co.	AEP	22,759	4.51%	Great Plains Energy Inc.	GXP	3,723	0.74%
Sempra Energy	SRE	21,914	4.34%	TECO Energy, Inc.	TE	3,710	0.74%
PPL Corporation	PPL	18,988	3.76%	Vectren Corporation	VVC	2,922	0.58%
PG&E Corporation	PCG	17,965	3.56%	Cleco Corporation	CNL	2,818	0.56%
Public Svc. Enter. Group Inc.	PEG	16,208	3.21%	IDACORP, Inc.	IDA	2,595	0.51%
Consolidated Edison, Inc.	ED	16,192	3.21%	Hawaiian Electric Indus., Inc.	HE	2,585	0.51%
Edison International	EIX	15,094	2.99%	UNS Energy Corp	UNS	2,493	0.49%
Xcel Energy Inc.	XEL	13,918	2.76%	Portland General Electric Co.	POR	2,345	0.46%
FirstEnergy Corp.	FE	13,786	2.73%	Black Hills Corporation	BKH	2,321	0.46%
Northeast Utilities	NU	13,365	2.65%	ALLETE, Inc.	ALE	1,985	0.39%
DTE Energy Company	DTE	11,618	2.30%	UIL Holdings Corporation	UIL	1,976	0.39%
Entergy Corporation	ETR	11,280	2.24%	PNM Resources, Inc.	PNM	1,926	0.38%
NiSource Inc.	NI	10,286	2.04%	Avista Corporation	AVA	1,691	0.34%
CenterPoint Energy, Inc.	CNP	9,936	1.97%	NorthWestern Corporation	NWE	1,666	0.33%
Wisconsin Energy Corporation	WEC	9,376	1.86%	El Paso Electric Company	EE	1,409	0.28%
Ameren Corporation	AEE	8,772	1.74%	MGE Energy, Inc.	MGEE	1,334	0.26%
CMS Energy Corporation	CMS	7,089	1.41%	Otter Tail Corporation	OTTR	1,059	0.21%
OGE Energy Corp.	OGE	6,726	1.33%	Empire District Electric Co.	EDE	973	0.19%
SCANA Corporation	SCG	6,575	1.30%	Unitil Corporation	UTL	420	0.08%
Pinnacle West Capital Corp.	PNW	5,822	1.15%	Total Industry		504,365	100.0

Source: EEI Finance Dept., SNL Financial

XII. EEI Index Market Capitalization (at Period End)

U.S. Shareholder-Owned Electric Utilities

\$ Billions

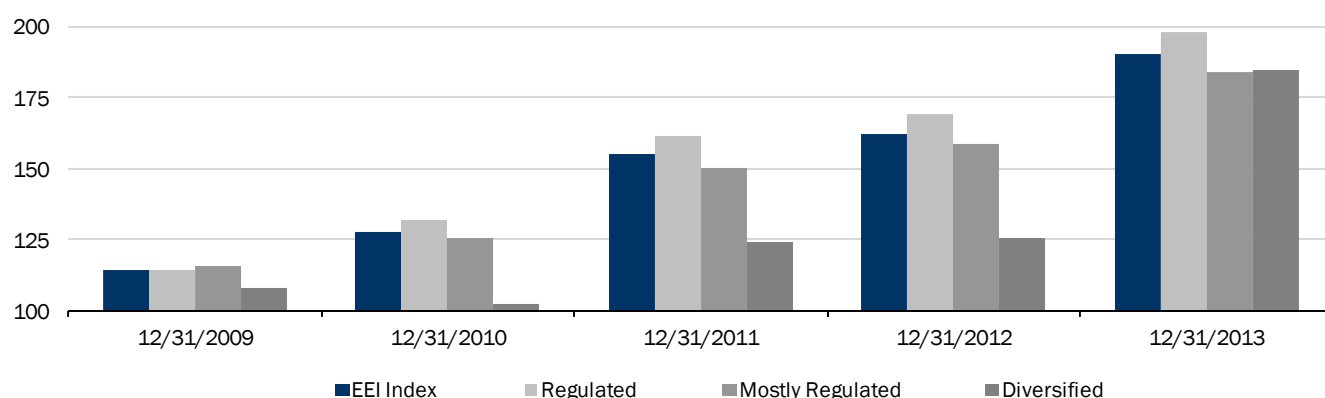


Quarter	Market Cap (\$Millions)	Quarter	Market Cap (\$Millions)
Q3-01	291,035	Q4-07	514,486
Q4-01	300,200	Q1-08	456,711
Q1-02	317,668	Q2-08	482,024
Q2-02	292,238	Q3-08	404,472
Q3-02	238,331	Q4-08	361,921
Q4-02	249,553	Q1-09	316,070
Q1-03	240,598	Q2-09	343,844
Q2-03	289,454	Q3-09	363,185
Q3-03	288,073	Q4-09	389,672
Q4-03	314,324	Q1-10	377,281
Q1-04	329,601	Q2-10	360,044
Q2-04	323,193	Q3-10	402,014
Q3-04	342,460	Q4-10	407,275
Q4-04	380,305	Q1-11	411,164
Q1-05	395,663	Q2-11	433,236
Q2-05	425,989	Q3-11	442,352
Q3-05	454,727	Q4-11	471,635
Q4-05	428,825	Q1-12	450,597
Q1-06	422,899	Q2-12	475,083
Q2-06	432,848	Q3-12	479,540
Q3-06	464,281	Q4-12	463,916
Q4-06	503,858	Q1-13	507,163
Q1-07	525,088	Q2-13	505,091
Q2-07	515,565	Q3-13	499,776
Q3-07	514,946	Q4-13	504,365

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., SNL Financial

XIII. Comparative Category Total Annual Returns

U.S. Shareholder-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2008



	2009	2010	2011	2012	2013	
EEI Index Annual Return (%)	14.1	11.9	21.4	4.8	17.27	
EEI Index Cumulative Return (\$)	100	114.1	127.7	155.0	162.5	190.51
Regulated EEI Index Annual Return	14.2	15.8	22.3	4.7	16.97	
Regulated EEI Index Cumulative Return	100	114.2	132.2	161.7	169.4	198.11
Mostly Regulated EEI Index Annual Return	15.6	8.5	19.5	5.8	15.97	
Mostly Regulated EEI Index Cumulative Return	100	115.6	125.4	149.9	158.6	183.92
Diversified EEI Index Annual Return	8.1	-5.2	21.4	0.8	47.54	
Diversified EEI Index Cumulative Return	100	108.1	102.5	124.4	125.3	184.94

Calendar year returns shown, except where noted.
Returns are unweighted averages of constituent company returns.

monthly purchase of \$85 billion in Treasury and mortgage securities as a means of holding interest rates down in hopes of stimulating economic growth). The Fed produced additional support for equities at its December meeting, when it decided to slow the pace of QE by only \$10 billion per month beginning in January. Such a tepid “tapering” of the Fed’s unprecedented multi-year sequence of QE programs was fuel for the market’s bullish spirits throughout most of the year, interrupted only when by fears of a more aggressive slowdown by the Fed temporarily spooked markets in late spring.

Interest Rates on the Rise

Interest rates declined early in 2013, powering strong gains for utility shares through May, but the benchmark 10-year Treasury yield then jumped from an early-May low of 1.6% to nearly 3.0% by early September on concern over comments by Fed Chairman Bernanke that the central bank would like to begin unwinding its QE program. The unexpected rate surge caused considerable volatility for market sectors where dividends are an important component of investor return expectations and utilities declined about 13% from early May through early September. The Fed surprised

XIV. EEI Index Top Ten Performers (Year to Date)

For the 12-month period ending 12/31/2013

Company	% Return	Category
Black Hills Corporation	49.1	R
MDU Resources Group, Inc.	47.5	D
UNS Energy Corp	46.1	R
NiSource Inc.	36.5	MR
Sempra Energy	30.4	MR
Dominion Resources, Inc.	29.6	MR
NorthWestern Corporation	29.3	R
NextEra Energy, Inc.	27.8	MR
ALLETE, Inc.	26.5	R
Vectren Corporation	25.8	MR

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

markets again in mid-September when Chairman Bernanke announced that the Fed had decided not to reduce the pace of QE after all, citing fears that economic growth wasn't strong enough to support further gains in employment. Interest rates pulled back and finished the third quarter around 2.6%, while utility shares jumped about 5% from their early-September lows. During Q4, yields ground slowly higher, finishing the year back near 3%. For the year as a whole, yields jumped more than 50%, with the 10-year Treasury rising from just under 2% as the year began.

Demand Growth Remains Stalled

Power demand remained weak in 2013. U.S. electric output increased only 0.1% over 2012's 3,991,409 GWh. However, after adjustment for variations in temperature, weather-normalized demand for 2013 actually declined 0.6%. Weather is not the only factor impacting demand. In-roads made by energy efficiency and demand-side management programs into the patterns of power usage are also driving structural changes in demand, which has in recent years become decreasingly linked to the pace of broad economic growth as the economy moves farther away from an emphasis on industrial and manufacturing activity and toward services. The expected long-term growth rate in power demand remains uncertain, although the general expectation among most industry analysts is that a rate below 1% is probable for the years immediately ahead.

Shale Gas and Renewables Crimp Competitive Outlook

Spot natural gas prices languished for most of 2013 under \$4 mm/BTU, a ceiling of sorts that has held for four continuous years, before finding a bid in December and climbing to \$4.40. The natural gas futures curve however weakened from mid-year to year-end, declining \$0.20 to \$0.50 across the 2016-2017 stretch in the curve. Low natural gas prices have depressed power prices in markets where gas is the marginal price setting fuel. Abundant zero-marginal cost renewable power (mostly wind in the mid-U.S.) has also eroded electricity prices in markets where baseload coal and nuclear generation have traditionally served load. Both forces have crimped the outlook for utilities with competitive generation and the industry at large continues its multi-year migration to a regulated focus.

With shale gas evidently plentiful — the Utica and Marcellus shales across the West Virginia-Pennsylvania-New York region are cited by analysts as the next abundant source of shale gas — and production capacity high, analysts maintained their general belief that any recovery in competitive power market fortunes continues to be deferred until well into the future. This trend was evident in the fact that cap-weighted EEI Index returns in the fourth quarter and full-year 2013 were lower than the average category returns, which are not cap weighted. The stocks of several large utilities with competitive businesses were relatively weak compared to smaller companies with a regulated focus.

A Search for Earnings Growth

Slow demand growth and adequate capacity across most of the country is taking a toll on the industry's formerly torrid pace of capex and rate base growth. EEI's latest projections (as of September 2013) for industry capex anticipate a slowing from \$95.2 billion in 2013 to \$92.8 billion in 2014 and to \$85.3 billion in 2015. Many analysts have ratcheted down slightly their expectation for earnings growth by regulated utilities, although they still expect that many are capable of low- to mid-single-digit gains in both earnings and dividends.

A review of consensus analyst estimates as of early January 2014 for the 49 publicly traded EEI Index companies confirms that general outlook. The average revenue growth across the industry (calculated as an arithmetical average of analyst projections, not accounting for market capitalization) is 4.2% in 2013 slowing to 2.8% in 2014. The average projected five-year earnings growth rate for the industry is 4.0%, ranging from single-digit declines for some utilities exposed to weak prices for competitive generation to as high as 7% to 8% for regulated companies undertaking relatively strong capital investment programs and/or benefiting from supportive outcomes in recent rate cases.

There has, however, been a minor ratcheting down of five-year earnings growth expectations since early 2013 (from 4.3% at the end of Q2 and 4.1% at the end of Q3) — a concession to both uncertainty over demand strength and a diminished outlook for competitive power. Many companies are contending with weak demand fundamentals by working hard to restrain operations & maintenance (O&M) cost pressures. A number of others are emphasizing growth opportunities in transmission investment, while a handful with contracted generation assets are examining spinning off these assets into a separate entity (a so-called "yield company" structure, successfully implemented last summer by merchant power producer NRG Energy) that can pay a dividend with good growth potential, unlocking value that yield-seeking investors would presumably pay a higher price for were it unbundled from the integrated holding company structure.

Bulls and Bears

The bearish view of utilities as a group relies primarily on a view that interest rates are on the rise. Utilities are prized by most investors for their steady, and reasonably sturdy, dividends. This characteristic makes them trade somewhat like bonds, but with the added appeal of dividend growth potential. Rising rates cause investors to discount the price of fixed-income type investments so their yields keep pace with market rates. Analysts on the bearish side of the fence cite the industry's stock price performance in historical periods of rising rates, when shares generally lagged or declined, and also caution about the potential risks that allowed rates

of return may rise more slowly than market yields, particularly if state regulatory commissions work to constrain the rate increases required to fund the industry's aggressive capital investment programs.

The bullish case for utilities relies on the outlook for steady earnings growth for many companies along with strong dividend yields, which averaged 4.0% at the end of the fourth quarter. The bulls argue the combination of earnings and dividend growth offered by utilities compares favorably with the S&P 500's 2.7% dividend yield and only slightly higher projected growth rate, estimated in the high single digits. Moreover, with market interest rates depressed

by Fed monetary policy, a case can be made that bond yields have headroom to rise, in relation to historical patterns, without overly threatening utility PE ratios.

Both sides, however, warily watch stagnant power demand and agree that recent cost cutting in areas such as operations and maintenance (O&M) can only go so far to help earnings. The demand for power, direction of interest rates and future moves in natural gas prices are mostly beyond the control of utility managements — and these forces are likely to persist as the primary drivers of utility stock price performance in the near to intermediate term. ■