All of the major electric utilities located in the western region of the United States are reviewed in this Issue; eastern electrics, in Issue 1; and the remaining utilities, in Issue 5.

Companies in the Electric Utility Industry are dealing with the coronavirus-driven recession. Some have been able to offset the effects of the resulting slump in kilowatt-hour sales, others haven't been as successful.

Despite the recession, liquidity has not been a problem for the companies in the Electric Utility Industry.

The prices of most stocks in this group have declined more than 10% in 2020. In recent weeks, they have exhibited more price stability than they did when the market plummeted in late February.

INDUSTRY TIMELINESS: 36 (of 95)

Dealing With The Coronavirus Problem

The last time Issue 11 went to press, in mid-April, none of the companies covered in the Electric Utility Industry (including those reviewed in Issues 1 or 5) had reported first-quarter results. Now that every company has reported earnings, and has had time to assess the effects of the economic recession and the slump in commercial and industrial kilowatt-hour sales, most companies have seen a modest falloff in their profit expectations for 2020. Utilities have suspended disconnections for nonpayment and waived late fees. They have also incurred direct costs associated with the coronavirus, such as personal protective equipment. Many states have allowed companies to defer these expenses for future recovery in a general rate case. Every utility has reduced expenses in order to compensate for the lost margin, but it appears as if this will not be enough to avoid an earnings decline, in some cases.

Some companies have reduced their 2020 earnings guidance in response to the recession. These include *Avista*, *Black Hills*, *NorthWestern*, and *Portland General Electric*. *Hawaiian Electric Industries* has withdrawn its target because it is impossible for management to predict how much greater the provision for loan losses at its American Savings Bank subsidiary will be. By contrast, *IDACORP*, *PNM Resources*, *Pinnacle West*, and *Xcel Energy* reiterated their earnings guidance. The companies with California utilities, *Edison International* and *Sempra Energy*, don't face earnings problems if kilowatt-hour sales plummet thanks to a regulatory mechanism in the Golden State that decouples revenues and volume.

Liquidity Is More Than Adequate

During the last recession, more than 10 years ago, liquidity became a concern for electric companies due to structural problems in the financial system. In the autumn of 2008, some A-rated utilities issued long-term debt at rates of more than 8%, even before they needed the money. They were afraid that if they waited, the situation would become even worse. So, when the lockdowns began in March of 2020 and it became obvious that the economy would be entering a recession (if it wasn't already in one), utilities tapped their credit lines to ensure they would have adequate liquidity. This recession has been different from the previous one, and it has turned out that liquidity has not been a problem. The slump in stock prices has made equity offerings less appealing, but electric utilities (and their parent companies) have been able to issue debt at attractive rates. For example, in the second quarter, *Pinnacle West* issued $500 million of five-year notes at a rate of 1.30% and its Arizona Public Service utility subsidiary sold $600 million of 30-year debt at a rate of 3.35%. In the same period, *Black Hills* issued $400 million of 10-year notes at a rate of 2.50%. *Black Hills* also had the good timing of selling stock in February, when market conditions were much more favorable. Similarly, *PNM Resources* issued stock in January through a forward sale.

Conclusion

Due to investor concern about the effects of the recession on electric utilities, most stocks in the Electric Utility Industry have lost more than 10% of their value in 2020—despite a decline in interest rates. Some prices have fallen more than 20%. During the first several weeks after the market decline began, electric company stocks exhibited much more volatility than usual. Lately, their volatility has declined to a level befitting their high Price Stability indexes.

Two exceptions are the equities of *El Paso Electric Company* and *Xcel Energy*, which are about where they were in price at the beginning of 2020. The former company is being acquired, and the latter has appeal as a pure-play utility that has maintained its earnings guidance for the current year.

When electric utility stocks reached their peak in February, the group's average dividend yield briefly fell below 3%. Since the market's decline, the industry's average yield has risen to 3.7%. This is still quite low, by historical standards. Most of the electric stocks reviewed this week offer attractive 18-month total return potential, but projected returns aren't so appealing for the period to 2023-2025. Even after the market's downturn, some of the equities in the Electric Utility Industry are trading within their 3- to 5-year Target Price Range.

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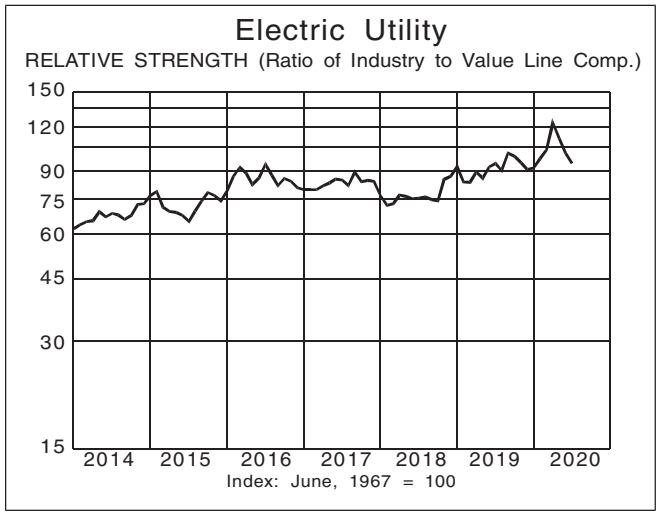

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