All of the major electric utilities located in the eastern region of the United States are reviewed in this Issue; western electrics, in Issue 11; and the remaining utilities, in Issue 5.

As companies' first-quarter results are being released and conference calls with analysts are being conducted, we discuss how the Electric Utility Industry is responding to the coronavirus-related problems.

Regulatory mechanisms that decouple revenues and volume are proving to be a boon for those utilities that operate under such mechanisms.

As a group, electric utility stocks have declined in price far less than the broader market average since the market turmoil began in late February. However, they have not been immune to the market's volatility.

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The Industry's Coronavirus Response

When companies in the Electric Utility Industry reported earnings (in February, in most cases) for the fourth quarter of 2019, the subject of coronavirus rarely came up, and then just in passing when it did. This changed considerably when companies reported results for the first period of 2020. (When this report went to press in early May, about half of the companies in this Industry had still not reported March-quarter earnings.) The lockdowns and forced business closings that most states imposed did not begin until mid- to late March, so there was little effect on kilowatt-hour sales in the first quarter. Volume declines that some companies reported occurred mainly from a milder-than-normal winter in many parts of the United States. *Public Service Enterprise Group* has cut costs in response to the fall in kilowatt-hour sales. Note that increased sales to residential customers (the most profitable, typically) will offset part of the decline in volume to commercial and industrial users.

Utilities have had to change the way they operate in the current situation. For instance, if personnel must be reduced for certain jobs, this can lead to additional overtime pay. Cleaning and disinfecting things has a cost, too. (At this point, companies have not reported any problems in their ability to obtain equipment.) Most utilities have announced charitable contributions to organizations that address problems caused by the coronavirus, an expense paid by shareholders, not customers. Because utilities are not disconnecting customers for nonpayment (and, in most cases, are suspending late fees), this will result in higher bad-debt expense. Some regulatory commissions, such as the one in Maryland, have directed utilities to track their coronavirus-related costs for future recovery. This will help *FirstEnergy* and *Exelon*, which operate in the state. Some utilities will likely postpone rate cases due to the weak economy, too. *Duke Energy* has already had a delay in a regulatory proceeding. Unfortunately, *Consolidated Edison*, operating in New York City and environs, has lost a number of employees to the virus.

Upon reporting first-quarter results, some companies maintained their 2020 earnings guidance, while others cut it. *NextEra Energy*, *Public Service Enterprise Group*, and *AVANGRID* are among the companies that reiterated their targeted earnings ranges. The board of directors of *Southern Company* raised the dividend in the second quarter, as usual, despite the difficulties caused by the pandemic. On the other hand, Portland General Electric (covered in Issue 11) cut its profit guidance, and its board did not increase the disbursement at its April meeting, in contrast to the practice in recent years. NorthWestern (reviewed in Issue 11) also reduced its earnings target.

Revenue Decoupling

Historically, electric companies' revenues rose or fell along with changes in volume. This makes utilities' earnings susceptible to fluctuations in sales caused by the weather or changes in the state of the economy. It also provides a disincentive for companies to promote energy-efficiency measures (although most utilities do so anyway).

In recent years, an increasing number of utilities have been operating under regulatory mechanisms that decouple revenues from electric and/or gas volume. Under these mechanisms, revenues advance through increases in the customer count or in the rate base, instead of rises in sales of electricity or natural gas. *Consolidated Edison*, *Eversource Energy*, and *AVANGRID* are among the utilities for which most of their revenues are not based on volume. These utilities' earnings are likely to hold up well, even as the economic turmoil causes sales to decline. Some companies are asking for decoupling mechanisms in current rate proceedings, and we believe the current economic problems will spur more utilities to follow suit.

Conclusion

Utility stocks are seen as a safe (more accurately, less-risky) haven when the markets are turbulent. Most of the equities in this group have declined far less than the broader market averages since the market plummeted in late February. However, the volatility these issues have exhibited has belied their high Price Stability Indexes. The quotations of most stocks in the Electric Utility Industry have fallen between 10% and 20% so far this year. The average dividend yield for this group is 3.8%.

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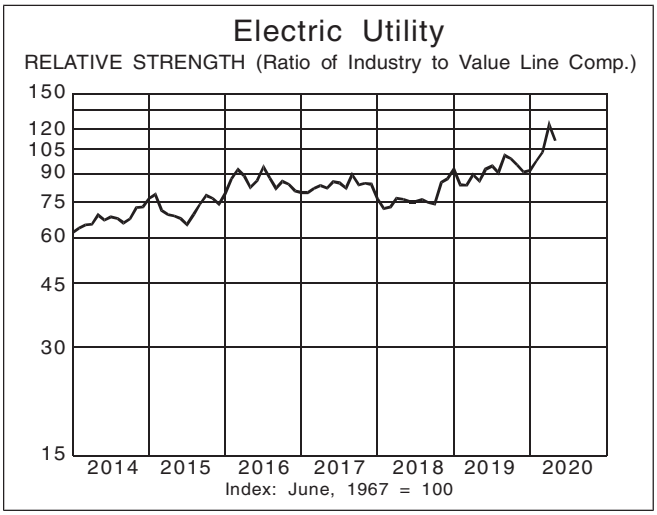

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