

FINANCIAL FOCUS

Average utility equity ratio declines in 2020 amid COVID-19 pandemic

Monday, October 19, 2020 7:49 AM ET

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Market Intelligence

It can be reasonably argued that the increased uncertainty and economic dislocation engendered by COVID-19 should have caused utilities to increase their common equity ratios, and thus financial strength, but the opposite occurred in the first half of 2020. As of June 30, the average common equity ratio for the energy and water companies followed by Financial Focus had declined by 1.3 percentage points, or pps, to 42.9% versus 44.2% at year-end 2019. Roughly three-fourths of the followed companies posted a decline in their common equity ratio in the first half of 2020.

The capital structure data contained in this analysis is derived from an Oct. 2 study of utility parent company financials. We note that the overall equity ratio decline is consistent with the general slippage in parent company financial measures that are detailed in the Oct. 2 study. In addition, while these measures of financial strength declined, average energy and water utility EPS during the first two quarters were 6.1% higher year over year.

Individual company and summary data is provided in the table at the conclusion of this report.

Utility subgroup common equity ratio changes during 2020

Subgroup	Equity ratio, 06/30/20 (%)	Change in equity ratio, 06/30/20 vs. 12/31/19 (pps)	Change in 6-month EPS, 06/30/20 vs. 06/30/19 (%)
Electric	42.5	-1.5	5.5
Gas	45.6	-1.0	-2.6
Multi-utility	40.6	-0.9	7.0
Total energy	42.2	-1.1	4.6
Water	46.8	-2.4	16.1
Total utility	42.9	-1.3	6.1

Data compiled Aug. 17, 2020, and Aug. 12, 2020.
Source: S&P Global Market Intelligence

As indicated in the above table, although there were modest differences, the equity ratio decline occurred in all four utility subgroups. Among the three energy subgroups, the electric posted the largest decline, at 1.5 pps, followed by the gas and multi-utility subgroups with declines of 1.0 pps and 0.9 pps, respectively. The two energy subgroups with significant gas utility operations posted the lowest equity ratio declines. For the four subgroups, water posted the largest equity ratio decline at 2.4 pps. We note, however, that as of June 30, the water subgroup maintained the highest equity ratio, 46.8%, compared with 45.6% for the gas, 42.5% for the electric and 40.6% for the multi-utility subgroups.

Looking at the percentage point change in equity ratio and the percentage change in EPS for the six months ended June 30, 2020, versus June 30, 2019, no consistent pattern exists across the four subgroups. The water subgroup did have the highest, by a wide margin, increase in EPS, at 16.1%, along with the largest percentage point decline in the equity ratio. The gas subgroup, however, posted the second-lowest percentage point equity ratio decline, but gas EPS decreased in the first six months of 2020.

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Regarding first-half utility EPS, in a recently issue report, Financial Focus noted that although the broader economic effects of the coronavirus pandemic were in full force during the period, most utilities' results did not reflect significant negative pandemic-related impacts. Adjusted first-half 2020 earnings for the companies in the energy universe were up an average of 4.6% year over year, although individual company results varied widely. Regarding the energy subgroup results, electric EPS were up 5.5%, gas EPS were down 2.6%, and the multi-utility EPS increased 7.0%. Despite many companies reporting that commercial and industrial sales fell in the second quarter, most management teams affirmed existing earnings guidance ranges for 2020. First-half 2020 EPS for the water companies increased 16.1%.

Utilities with largest equity ratio decreases and increases, June 30, 2020, vs. Dec. 31, 2019

Company	Ticker	Change in equity ratio (pps)	Change in 6-month EPS, 06/30/20 vs. 06/30/19 (%)
Largest decreases			
Essential Utilities	WTRG	-9.2	36.9
New Jersey Resources	NJR	-5.5	-0.9
OGE Energy Corp.	OGE	-5.3	0.0
Northwest Natural Holding	NWN	-4.5	-21.7
California Water Service Group	CWT	-4.1	NM
Largest increases			
South Jersey Industries	SJI	5.1	18.8
Sempra Energy	SRE	4.8	56.6
MGE Energy	MGEE	2.7	12.3
Eversource Energy	ES	2.5	6.9
Chesapeake Utilities	CPK	1.4	10.1
Total utility average		-1.3	6.1

Data compiled Aug. 17, 2020, and Aug. 12, 2020.

NM = Not meaningful

PG&E Corp.'s results are not included in this table since the company had filed for Chapter 11 bankruptcy protection Jan. 29, 2019, and did not emerge from bankruptcy until July 1, 2020.

Source: S&P Global Market Intelligence

Regarding those companies that posted the largest declines in their common equity ratios, OGE Energy Corp. recorded an impairment charge in the second quarter related to its investment in Enable Midstream Partners LP. OGE holds a 25.5% limited partner interest and a 50% general partner interest in Enable Midstream Partners. For Northwest Natural Holding Company, several debt financings that increased interest expense were undertaken in March as a precautionary measure to strengthen the company's liquidity position because of the pandemic.

For the water subgroup, California Water Service Group experienced a 4.1-pps decrease in its equity ratio and a decline in EPS for the first six months of 2020 to -\$0.31 from \$0.19 in the year-ago period. The decline is related to a drag due to a delay in the resolution of a rate case at the company's largest subsidiary that lowered its ROE to 5.17% for the last 12 months. Higher customer rates in that case had been expected to take effect Jan. 1. A settlement between the company and the California Public Advocates Office was filed in October 2019. A long-awaited proposed decision from the California Public Utilities Commission is expected in mid-October, with a final written decision expected by Nov 20.

South Jersey Industries Inc. in July 2018 completed the acquisition of New Jersey-based Elizabethtown Gas Co. and the extremely small Maryland utility Elkton Gas Co., and the increase in South Jersey's equity ratio may reflect the unwinding of some debt that the company used to finance the acquisition. We note, however, that the company's June 30 equity ratio is still well below the gas subgroup and total energy utility company averages.

Sempra Energy completed the sales of its South American businesses in June, marking the conclusion of its broad, two-year "capital rotation plan." The company's investments are now focused on transmission and distribution energy infrastructure in, according to Sempra, the most attractive markets in North America, including California, Texas and Mexico, and on North America's liquefied natural gas export market. In total, including the sales of the company's South American businesses and its U.S. renewables businesses and non-utility natural gas storage assets, Sempra has generated approximately \$8.3 billion in total gross proceeds from these divestitures. Sempra indicates that the proceeds from these transactions are being used to further bolster its strong liquidity position, strengthen the balance sheet,

support the execution of its robust capital plan and return value to shareholders. The increase in Sempra's equity ratio places it slightly below the averages of both the energy utilities and energy and water utilities.

Utility common equity ratios

Company	Ticker	Common equity % of total capital			EPS (\$), 6 months ended		
		06/30/20	12/31/19	Change (pps)	Jun-20	Jun-19	Change (%)
Electric							
ALLETE Inc.	ALE	52.1	56.1	-4.0	1.83	1.82	0.5
American El Power	AEP	37.6	38.6	-1.0	2.10	2.19	-4.1
Edison International	EIX	37.6	37.9	-0.3	1.63	2.21	-26.2
Entergy	ETR	32.5	33.4	-0.9	2.51	2.17	15.7
Evergy Inc.	EVRG	45.1	46.0	-0.8	1.78	1.71	4.1
Eversource Energy	ES	46.9	44.4	2.5	1.09	1.02	6.9
Exelon	EXC	43.6	43.6	0.0	1.42	1.47	-3.4
FirstEnergy Corp.	FE	24.4	24.7	-0.3	1.23	1.28	-3.9
Hawaiian El Industries	HE	48.3	48.9	-0.6	0.76	0.81	-6.2
IDACORP, Inc.	IDA	53.4	57.2	-3.9	1.93	1.89	2.1
NextEra Energy, Inc.	NEE	41.9	43.5	-1.6	4.99	4.55	9.7
OGE Energy Corp.	OGE	50.0	55.2	-5.3	0.74	0.74	0.0
Otter Tail Corp.	OTTR	51.1	52.1	-1.0	1.02	1.05	-2.9
Pinnacle West	PNW	44.6	47.8	-3.2	1.98	1.44	37.5
PNM Resources	PNM	31.6	33.0	-1.4	0.73	0.50	46.0
Portland General Elec.	POR	45.9	48.1	-2.1	1.34	1.10	21.8
PPL Corp.	PPL	35.2	35.9	-0.7	1.22	1.28	-4.7
Electric average		42.5	43.9	-1.5	-	-	5.5
Gas							
Atmos Energy*	ATO	57.6	59.0	-1.5	2.74	2.50	9.6
Chesapeake Utilities	CPK	44.4	43.0	1.4	2.40	2.18	10.1
National Fuel Gas*	NFG	45.7	49.4	-3.7	1.54	1.78	-13.5
New Jersey Resources*	NJR	44.0	49.5	-5.5	1.06	1.07	-0.9
Northwest Natural Holding	NWN	41.1	45.6	-4.5	1.41	1.80	-21.7
ONE Gas Inc.	OGS	54.7	53.7	1.1	2.20	2.22	-0.9
South Jersey Industries	SJI	34.7	29.6	5.1	1.14	0.96	18.8
Southwest Gas Holdings	SWX	46.9	46.7	0.2	1.82	2.26	-19.6
Spire Inc.*	SR	41.4	42.5	-1.1	2.81	2.97	-5.2
Gas average		45.6	46.6	-1.0	-	-	-2.6
Multi-utility							
Alliant Energy	LNT	44.3	43.5	0.8	1.26	0.93	35.5
Ameren Corp.	AEE	43.3	44.7	-1.4	1.57	1.50	4.7
Avangrid	AGR	62.9	64.2	-1.3	1.08	1.04	3.8
Avista Corp.	AVA	45.2	46.2	-1.0	0.98	1.14	-13.8
Black Hills Corp.	BKH	40.9	39.6	1.3	1.92	1.97	-2.5
CenterPoint Energy Inc.	CNP	28.0	28.1	-0.2	0.86	0.81	6.2
CMS Energy Corp.	CMS	25.5	27.3	-1.9	1.36	1.08	25.9
Consolidated Edison Inc.	ED	43.1	44.2	-1.1	1.95	1.97	-1.0
Dominion Energy	D	37.1	40.9	-3.8	1.91	1.87	2.1
DTE Energy Co.	DTE	37.9	39.6	-1.8	3.19	3.04	4.9
Duke Energy Corp	DUK	38.6	40.5	-1.8	2.22	2.36	-5.9
MDU Resources Group	MDU	54.0	54.7	-0.7	0.63	0.53	18.9
MGE Energy	MGEE	63.1	60.3	2.7	1.28	1.14	12.3
NiSource Inc.	NI	30.6	32.5	-2.0	0.89	0.87	2.3
NorthWestern Corp.	NWE	47.4	47.5	0.0	1.48	1.73	-14.5
PG&E Corp.	PCG	8.1	16.4	-8.2	1.92	2.14	-10.3
Public Service Enterprise Group	PEG	47.5	47.7	-0.2	1.82	1.66	9.6
Sempra Energy	SRE	41.4	36.6	4.8	4.73	3.02	56.6
Southern Co.	SO	33.7	34.1	-0.3	1.56	1.50	4.0
WEC Energy Group	WEC	44.5	43.9	0.6	2.19	2.07	5.8
Xcel Energy Inc.	XEL	36.5	39.2	-2.7	1.10	1.07	2.8
Multi-utility average		40.8	41.5	0.8	-	-	7.0

multi-utility average		40.6	41.5	-0.9	-	-	7.0
Total energy utility average		42.2	43.3	-1.1	-	-	4.6
Water							
American States Water	AWR	53.3	54.6	-1.3	1.07	1.07	0.0
American Water Works	AWK	37.3	39.0	-1.8	1.66	1.56	6.4
Artesian Resources	ARTN.A	50.4	51.0	-0.6	0.93	0.79	17.7
California Water Service Group	CWT	39.8	43.9	-4.1	-0.31	0.19	NM
Essential Utilities	WTRG	46.4	55.6	-9.2	0.89	0.65	36.9
Middlesex Water	MSEX	53.4	54.9	-1.5	0.99	0.88	12.5
SJW Group	SJW	37.6	38.5	-0.9	0.77	0.68	13.2
The York Water Co.	YORW	56.6	56.5	0.1	0.63	0.50	26.0
Water average		46.8	49.3	-2.4	-	-	16.1
Total utility average		42.9	44.2	-1.3	-	-	6.1

Data compiled Aug. 17, 2020, and Aug. 12, 2020.

NM = Not meaningful

* Based on fiscal year ended Sept. 30.

Capital, including common equity, components are based upon percentages of total capital including short-term debt.

Source: S&P Global Market Intelligence

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