

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.

Merger, asset sale, and spinoff activity is heating up in the Electric Utility Industry. We look at some deals that have been announced in recent months.

Hurricanes and tropical storms cause significant damage to electric utilities' systems. The eastern United States was hit by a tropical storm in early August, and the Gulf Coast was hit by hurricanes in late August and early October.

Most electric utility stocks have performed poorly in 2020, despite lower interest rates. There are some exceptions.

Mergers, Asset Sales, And Spinoffs

In recent months, there has been a resurgence of deal-related activity in the Electric Utility Industry. *AVANGRID* agreed to acquire PNM Resources (reviewed in Issue 11), the parent of utilities in New Mexico and Texas. *Dominion Energy* sold most of its midstream natural gas assets, with the sale of additional midstream assets pending. *Public Service Enterprise Group* is attempting to sell its non-nuclear generating assets. *PPL Corporation* wants to sell its utilities in the United Kingdom. *DTE Energy* (covered in Issue 5) is spinning off its midstream gas division into a separate company. *Exelon* is considering a spinoff of its nonutility businesses. These moves have this in common: a desire by companies to increase the proportion of their income that is derived from domestic utilities. The regulated utility business is hardly risk-free, but offers more stability than nonutility operations. Low interest rates make it easier for companies to finance their acquisitions.

There is always uncertainty in utility deals because regulatory approval is typically needed, especially when it comes to mergers or acquisitions. Proposed utility combinations sometimes raise local opposition, leading state regulatory commissions to reject deals (or accept them, with conditions that the companies find unacceptable). *NextEra Energy* has had multiple unsuccessful attempts. In late September, *The Wall Street Journal* reported that *NextEra Energy* had made an offer to *Duke Energy*. Whether this will be revived, or will lead to a transaction, remains to be seen.

Hurricanes And Tropical Storms

The eastern United States was hit by a tropical storm in early August. High winds brought down trees, branches, and power lines, and caused outages for millions of electric customers. In the aftermath of such events, electric utilities are sometimes hit with criticism. This occurred in New York and Connecticut, where investigations of utilities' performance are occurring. This affects *Consolidated Edison* and *Public Service Enterprise Group* (which runs utility operations on Long Island) in New York and *Eversource* and *AVANGRID* in Connecticut. Fines are possible, and the utilities might not be allowed to recover all of their storm-related costs.

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The Gulf Coast was hit by hurricanes in late August and early October. This mainly affected *Entergy* (covered in Issue 5). The company's estimated costs were \$1.5 billion-\$1.7 billion for the August hurricane and \$250 million-\$300 million for the October storm. *Entergy* will seek recovery of these costs through filings with state regulatory commissions. Due to the magnitude of the first hurricane's costs, the company might issue securitized bonds to recover these.

Conclusion

This has been a difficult year for electric utility stocks, as a group. At the start of 2020, there was an expectation of a reversion to the mean, given the industry's stellar performance in 2019. The industry, despite its typical defensive characteristics, was caught in the market plunge that began in late February. Then, the effects of the lockdowns on the economy hurt many utilities and caused some to reduce their 2020 earnings guidance upon reporting first-quarter results. Some utilities had to absorb direct costs stemming from the coronavirus, but many states allowed companies to defer these expenses for future recovery.

Two outliers among utilities are worth mentioning. On the positive side, the price of *NextEra Energy* stock has soared 24% in 2020. Investors like the company's stability, financial strength, and large position in renewable energy. On the negative side, the price of *FirstEnergy* stock has plummeted 38% due to the company's part in a bribery investigation involving lobbyists and the Ohio legislature. The company's board of directors ousted the chief executive officer and two other executives.

The average dividend yield of the stocks in the Electric Utility Industry is 3.7%. This is well above the 2.3% median of all dividend-paying stocks covered in *The Value Line Investment Survey*. Some of these equities remain expensively priced, however, and are trading well within their 2023-2025 Target Price Range.

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