

Stock Performance

HIGHLIGHTS

- The EEI Index returned -7.2% over 2022's first nine months, losing ground but strongly outperforming the three major indices.
- Monthly CPI inflation remained above 8% during Q3 and interest rates rose across all maturities, extending their year-to-date advance. The 10-year Treasury yield climbed from 2.8% in early July to 3.8% at quarter-end; the 10-year yield was 1.5% at year-end 2021
- While surging inflation and higher energy costs are a global phenomenon, the trend is impacting electric utilities. EIA data shows the average cost of natural gas for electricity generation rose 110% year-to-year in Q2 and 86% in Q3. Coal costs rose 16% in Q2 and 22% in Q3.
- Perhaps the biggest surprise for the industry in Q3 was the passage on August 16 of the Inflation Reduction Act of 2022 (IRA). Wall Street said the IRA includes about \$370 billion in energy provisions that support the nation's clean energy agenda and may add to rate base growth opportunities for electric utilities

COMMENTARY

Equity markets fought twin headwinds of high inflation and rising interest rates throughout Q3 2022 and sustained a third-straight quarter of losses. The Dow Jones Industrials returned -6.2%, the S&P 500 -4.9% and the Nasdaq returned -3.5%. The EEI Index returned a comparable -6.7%. Measured on a year-to-date basis through September 30, the S&P 500 entered bear market territory — usually defined as a decline of 20% — with a -23.9% return. The Nasdaq was even weaker with a loss of 32.4%. The Dow Jones Industrials returned -19.7% year-to-date. By contrast the EEI Index re-

I. Index Comparison (% Return)

Index	2016	2017	2018	2019	2020	2021	2022*
EEI Index	17.4	11.7	3.7	25.8	-1.2	17.1	-7.0
Dow Jones Inds.	16.5	28.1	-3.5	25.3	9.7	21.0	-19.7
S&P 500	12.0	21.8	-4.4	31.5	18.4	28.7	-23.9
Nasdaq Comp.^	7.5	28.2	-3.9	35.2	43.6	21.4	-32.4

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

*9 mo. through September 30.

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

Source: EEI Finance Department, S&P Global Market Intelligence

II. Category Comparison (% Return)

U.S. Investor-Owned Electric Utilities

Index	2016	2017	2018	2019	2020	2021	2022*
All Companies	22.2	11.6	4.3	23.1	-8.1	17.6	-7.2
Regulated	21.2	11.7	4.5	24.6	-9.0	16.7	-5.8
Mostly Regulated	24.6	11.3	3.6	17.9	-4.9	21.1	-13.5
Diversified	25.6	n/a**	n/a**	n/a**	n/a**	n/a**	n/a**

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.

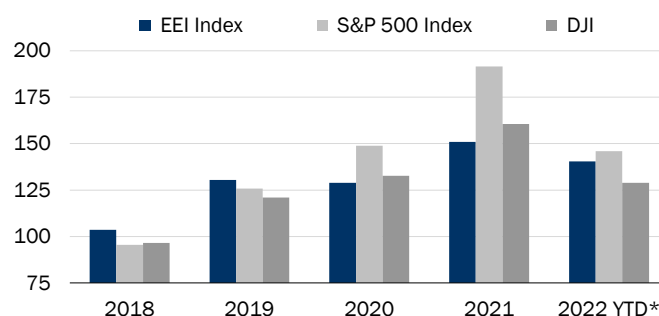
*9 mo. through September 30.

**Diversified category eliminated in 2017 due to lack of constituent companies.

Source: EEI Finance Department, S&P Global Market Intelligence and company reports

III. Total Return Comparison

Value of \$100 invested at close on 12/31/2017

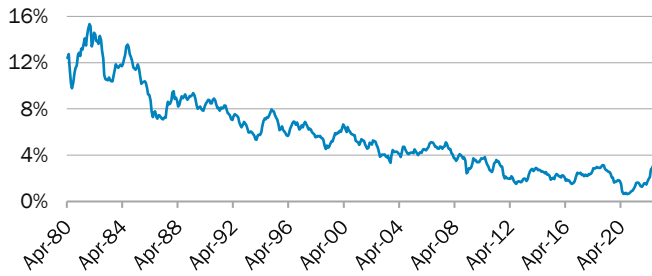


*9 mo. through September 30.

Source: EEI Finance Department, S&P Global Market Intelligence

IV. 10-Year Treasury Yield — Monthly

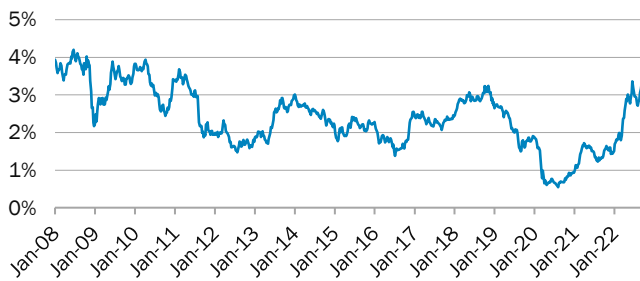
Average Monthly Yield, 1/1/1980 through 9/30/2022



Source: U.S. Federal Reserve

V. 10-Year Treasury Yield — Weekly

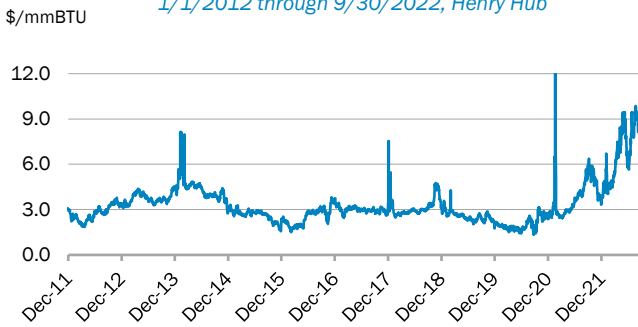
Weekly Yield, 1/1/2008 through 9/30/2022



Source: U.S. Federal Reserve

VI. Natural Gas Spot Prices

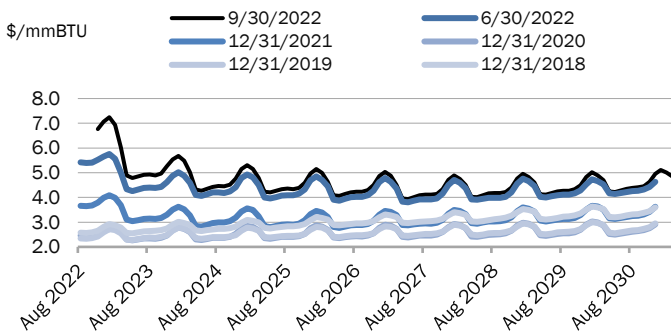
1/1/2012 through 9/30/2022, Henry Hub



Source: S&P Global Market Intelligence

VII. NYMEX Natural Gas Futures

8/2022 through 12/2030, Henry Hub



Source: S&P Global Market Intelligence

VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
EEl Index	0.4	-13.6	1.8	5.6	6.5	3.0	-0.7	1.4	12.9	4.8	-4.9	-6.7
Dow Jones Industrials	6.7	-22.7	18.5	8.2	10.7	8.3	5.1	-1.5	7.9	-4.0	-10.9	-6.2
S&P 500	9.1	-19.6	20.5	8.9	12.2	6.2	8.6	0.6	11.0	-4.6	-16.1	-4.9
Nasdaq Comp. [^]	12.2	-14.2	30.6	11.0	15.4	2.8	9.5	-0.4	8.3	-9.0	-23.0	-3.5

Category*	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3
All Companies	-0.4	-15.8	-1.0	1.3	8.8	6.0	0.3	-0.7	11.5	5.2	-3.8	-8.3
Regulated	-0.1	-15.0	-1.3	-0.1	8.6	4.8	0.3	-0.7	11.9	6.4	-3.6	-8.2
Mostly Regulated	-1.2	-18.3	0.2	6.2	9.3	10.6	0.3	-0.8	10.1	0.0	-5.0	-9.0

[^]Price gain/(loss) only. Other indices show total return. / * Returns shown here are unweighted averages of constituent company returns. The EEl Index return shown above is cap-weighted. Source: EEl Finance Department, S&P Global Market Intelligence

IX. Sector Comparison, Trailing 3 mo. Total Return

For the three-month period ending 9/30/2022

Sector	Total Return
Telecommunications	6.7%
Oil & Gas	-3.8%
Healthcare	-6.2%
Utilities	-6.7%
EEl Index	-6.7%
Consumer Goods	-14.9%
Financials	-15.5%
Industrials	-16.7%
Basic Materials	-17.0%
Technology	-21.2%
Consumer Services	-24.3%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

X. Sector Comparison, Trailing 12 mo. Total Return

For the twelve-month period ending 9/30/2022

Sector	Total Return
Oil & Gas	42.5%
Utilities	11.3%
EEl Index	5.0%
Healthcare	-0.5%
Telecommunications	-3.2%
Basic Materials	-5.4%
Consumer Goods	-8.3%
Financials	-10.8%
Technology	-17.6%
Industrials	-19.9%
Consumer Services	-29.0%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Source: EEl Finance Dept., Dow Jones & Company, Google Finance, Y Charts

XI. Market Capitalization at September 30, 2022 (in \$ Millions)

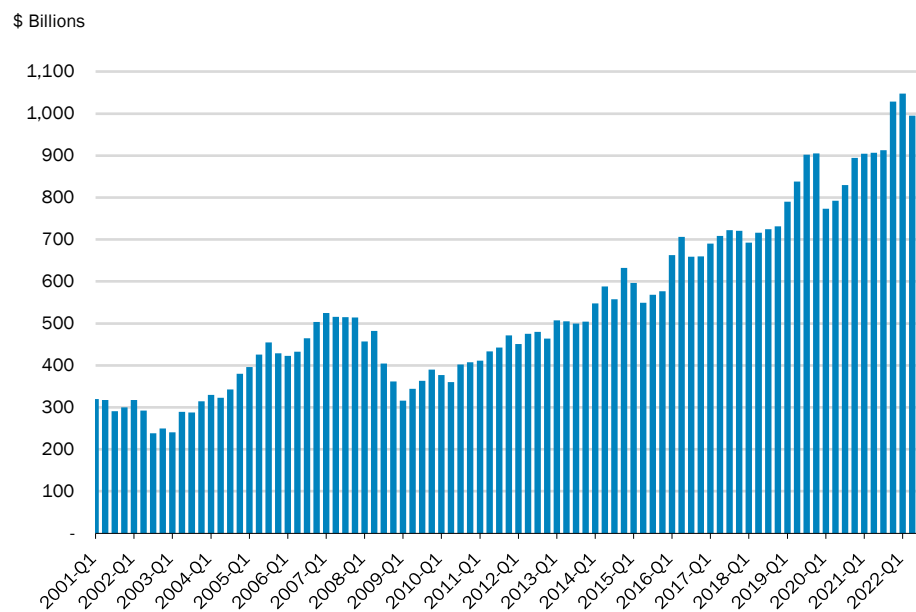
U.S. Investor-Owned Electric Utilities

Company	Stock Symbol	\$ Market Cap	% Total	Company	Stock Symbol	\$ Market Cap	% Total
NextEra Energy, Inc.	NEE	154,091	16.67%	CMS Energy Corporation	CMS	16,860	1.82%
Southern Company	SO	72,420	7.84%	AVANGRID, Inc.	AGR	16,127	1.75%
Duke Energy Corporation	DUK	71,625	7.75%	Eergy, Inc.	EVRG	13,656	1.48%
Dominion Energy, Inc.	D	56,560	6.12%	Alliant Energy Corporation	LNT	13,295	1.44%
Sempra Energy	SRE	47,208	5.11%	NiSource Inc.	NI	10,237	1.11%
American Electric Power Co., Inc.	AEP	44,403	4.81%	Pinnacle West Capital Corp.	PNW	7,301	0.79%
Exelon Corporation	EXC	36,748	3.98%	OGE Energy Corp.	OGE	7,299	0.79%
Xcel Energy Inc.	XEL	34,944	3.78%	MDU Resources Group, Inc.	MDU	5,562	0.60%
Consolidated Edison, Inc.	ED	30,385	3.29%	IDACORP, Inc.	IDA	5,017	0.54%
WEC Energy Group, Inc.	WEC	28,206	3.05%	Black Hills Corporation	BKH	4,384	0.47%
Public Service Enter. Group Inc.	PEG	27,946	3.02%	PNM Resources, Inc.	PNM	3,941	0.43%
Eversource Energy	ES	26,966	2.92%	Portland General Electric Co.	POR	3,878	0.42%
PG&E Corporation	PCG	24,838	2.69%	Hawaiian Electric Industries, Inc.	HE	3,793	0.41%
DTE Energy Company	DTE	22,205	2.40%	ALLETE, Inc.	ALE	2,808	0.30%
Edison International	EIX	21,557	2.33%	Avista Corporation	AVA	2,691	0.29%
FirstEnergy Corp.	FE	21,127	2.29%	NorthWestern Corporation	NWE	2,675	0.29%
Ameren Corporation	AEE	20,798	2.25%	Otter Tail Corporation	OTTR	2,559	0.28%
Entergy Corporation	ETR	20,466	2.21%	MGE Energy, Inc.	MGEE	2,373	0.26%
PPL Corporation	PPL	18,657	2.02%	Unitil Corporation	UTL	743	0.08%
CenterPoint Energy, Inc.	CNP	17,739	1.92%	Total Industry		924,087	100.00%

Source: EEI Finance Dept., S&P Global Market Intelligence

XII. EEI Index Market Capitalization (at Period End)

U.S. Investor-Owned Electric Utilities



Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.

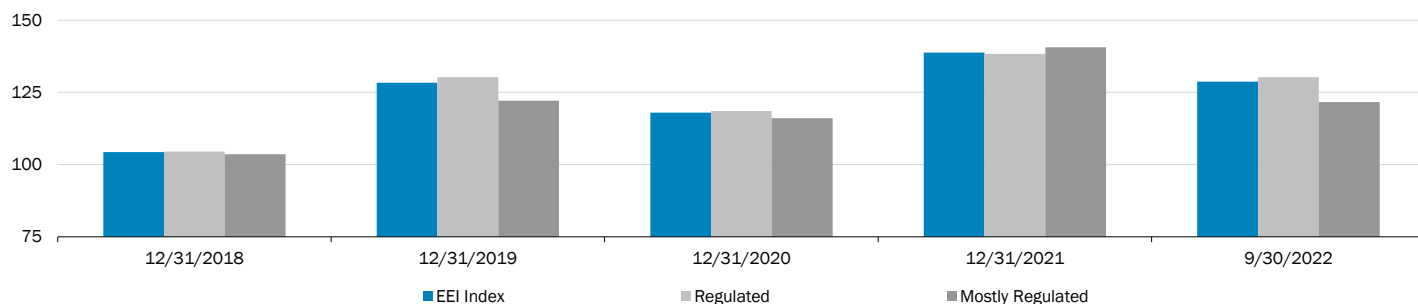
Source: EEI Finance Dept., S&P Global Market Intelligence

EEI Index Market Cap (in \$ Billions)

2006-Q4	504	2014-Q4	632
2007-Q1	525	2015-Q1	597
2007-Q2	516	2015-Q2	549
2007-Q3	515	2015-Q3	568
2007-Q4	514	2015-Q4	577
2008-Q1	457	2016-Q1	663
2008-Q2	482	2016-Q2	706
2008-Q3	404	2016-Q3	659
2008-Q4	362	2016-Q4	660
2009-Q1	316	2017-Q1	690
2009-Q2	344	2017-Q2	708
2009-Q3	363	2017-Q3	722
2009-Q4	390	2017-Q4	720
2010-Q1	377	2018-Q1	692
2010-Q2	360	2018-Q2	716
2010-Q3	402	2018-Q3	725
2010-Q4	407	2018-Q4	731
2011-Q1	411	2019-Q1	790
2011-Q2	433	2019-Q2	838
2011-Q3	442	2019-Q3	902
2011-Q4	472	2019-Q4	905
2012-Q1	451	2020-Q1	773
2012-Q2	475	2020-Q2	792
2012-Q3	480	2020-Q3	830
2012-Q4	464	2020-Q4	894
2013-Q1	507	2021-Q1	905
2013-Q2	505	2021-Q2	907
2013-Q3	500	2021-Q3	913
2013-Q4	504	2021-Q4	1,028
2014-Q1	548	2022-Q1	1,047
2014-Q2	588	2022-Q2	995
2014-Q3	557	2022-Q3	924

XIII. Comparative Category Total Annual Returns

U.S. Investor-Owned Electric Utilities, Value of \$100 invested at close on 12/31/2017



	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	9/30/2022
EEI Index Annual Return (%)		4.28	23.06	(8.07)	17.62	(7.21)
EEI Index Cumulative Return (\$)	100.00	104.28	128.32	117.96	138.74	128.74
Regulated EEI Index Annual Return		4.55	24.56	(9.01)	16.72	(5.84)
Regulated EEI Index Cumulative Return	100.00	104.55	130.22	118.49	138.30	130.22
Mostly Regulated EEI Index Annual Return		3.62	17.87	(4.95)	21.09	(13.49)
Mostly Regulated EEI Index Cumulative Return	100.00	103.62	122.14	116.09	140.58	121.61

Calendar year returns shown, except where noted.
Diversified category eliminated in 2017 due to lack of constituent companies.
Returns are unweighted averages of constituent company returns.

turned -7.0% over 2022's first nine months, losing ground but strongly outperforming the three major indices. Investors traditionally expect electric utility stocks to offer a hedge on broad market weakness and the group has done so admirably during 2022's market decline.

Sticky Inflation Pushes Interest Rates Higher

The Bureau of Labor Statistics (BLS) monthly consumer price index (CPI) rose 8.2% year-over-year in April, 8.5% in May and 9.0% in June, the highest readings since the early 1980s. Investors anticipated some weakening in year-to-year comparisons during Q3, but the actual reports proved disappointing. Monthly CPI inflation remained over 8% throughout Q3 — reaching 8.5% in July, 8.2% in August and 8.2% again in September.

Interest rates across all maturities rose in Q3, extending their year-to-date advance. Back in March, the U.S. Federal Reserve finally lifted the Fed Funds rate off the zero floor, to a range of 0.25% to 0.50%, and hiked rates twice in Q2 (50 basis points in May and 75 basis points in June). The third quarter brought two more 75 basis point hikes — on July 27 and September 21 — leaving the targeted Fed Funds rate at a 3.00% to 3.25% range on September 30. The 10-year Treasury yield climbed from 2.8% in early July to 3.8% at quarter-end; the 10-year yield was 1.5% at year-end 2021. The Moody's Baa Corporate Bond Index yield likewise rose from 5.3% to 6.1% during Q3.

Utility share returns are often tracked against other equity market sectors. Investors' use of utilities for income

XIV. EEI Index Top Ten Performers

For the six-month period ending 9/30/2022

Company	% Return	Category
Sempra Energy	15.9	R
Unitil Corporation	3.3	R
Consolidated Edison, Inc.	3.1	R
PG&E Corporation	3.0	R
CenterPoint Energy, Inc.	2.8	R
PNM Resources, Inc.	2.5	R
Southern Company	2.0	R
American Electric Power Company, Inc.	-0.4	R
Black Hills Corporation	-1.6	R
DTE Energy Company	-1.7	R

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

makes a comparison with bond returns relevant too. In the face of rising interest rates, the Bloomberg Aggregate Bond Index, the leading benchmark for bond market performance, lost nearly 6% in Q1, another 5% in Q2 and nearly 5% in Q3. This produced a year-to-date loss of 14.5% through September 30, setting the stage for what may become one of the worst years ever for bond investors.

Financial markets offer enough volatility to illustrate almost any investment thesis with the right endpoints. Nevertheless, it's fair to note utility stocks have performed quite well compared to both broad equities and bonds in 2022.

Power Demand Remains Firm

Despite sequential negative real GDP readings at -1.6% in Q1 and -0.6% in Q2, nationwide power demand in 2022 has been relatively strong. Year-to-date through Q3, total generation increased about 3.5% from last year, and rose 4.2% in Q3 as economic growth got back on track [In late October, the Bureau of Economic Analysis (BEA) reported that real GDP gained 2.6% in Q3.]. Residential and commercial sector demand accounted for Q3's gain. A hot July helped push residential demand up more than 7% for the month, according to Energy Information Administration (EIA) data, while August's gain was more subdued at 2.2%. Commercial demand growth exceeded 3% in July and September after a slower 2.3% gain in August. Industrial demand was flat to slightly down during the third quarter. Cooling degree days (CDD) rose only 3% year-to-year for the quarter as a whole.

Fuel Cost Inflation Drives up Power Prices

While surging inflation and higher energy costs are a global phenomenon, the trend is impacting U.S. electricity costs. Natural gas powers about 38% of generation nationwide and coal about 22%. Natural gas prices have been rising since the middle of 2020 and have jumped in 2022 to their highest levels since 2013. Regulated utilities pass fuel costs through to rates under state regulation and have little near-term control over the fuel element of the utility bill. EIA data shows the average cost of natural gas for electricity generation rose 110% year-to-year in Q2 and 86% in Q3. EIA data shows that comparable coal costs rose 11% year-to-year in Q1, 16% in Q2 and 22% in Q3.

While electricity rates in aggregate nationwide were mostly flat from 2008 through 2019, the average retail price of electricity nationwide according to EIA data rose 7% year-to-year in 2022's Q1, more than 12% in Q2 and almost 17% in Q3. Utility managements and Wall Street analysts are closely watching rate reviews and regulators' reactions to integrated resource plans to see if cost pressures on utility bills spoil consumers' or regulators' support for the clean energy capex that drives earnings growth.

Inflation Reduction Act (IRA) Signed into Law

Perhaps the biggest surprise for the industry in Q3 was the passage into law on August 16 of the Inflation Reduction Act of 2022 (IRA). The IRA was widely seen as a scaled down version of the Biden Administration's proposed Build Back Better Act of 2021, which stalled in 2022 due to the size of its \$2 trillion spending plan.

Wall Street analysts said the IRA — which contained a wide range of energy, healthcare and tax-code related legislation — includes about \$370 billion in energy provisions that support the nation's clean energy agenda and may add to rate base growth opportunities for electric utilities. With a few weeks to parse and analyze the bill's many themes — such as extension/expansion of clean energy production tax credits, support for electric vehicle adoption by consumers and introduction of a tax credit for emission-free nuclear generation — analyst research in September conveyed heightened enthusiasm for the bill's potential long-term boost to clean energy investment.

In EEI's view, the IRA places the United States at the forefront of global efforts to drive down carbon emissions, especially when paired with the historic funding included in the bipartisan infrastructure law. It also provides much-needed certainty to electric utilities over the next decade, as they work to deploy clean energy and carbon-free technologies. EEI applauds Congress for passing this monumental bill and sending it to President Biden's desk.

The IRA was unusual for Washington politics in two respects. First, negotiations among key politicians — notably New York's Senator Schumer, West Virginia's Senator Manchin and Arizona's Senator Sinema — took place out of the public eye and news in early August of the bill's nearly certain prospect for success surprised nearly everyone. Second, the U.S. Treasury has an unusually large role in determining just how IRA money will be spent. Typically Treasury spends money according to directives made clear by legislation, but the IRA leaves specifics up to Treasury to an unusual degree. EEI is closely tracking Treasury's guidance on these issues. ■