All major electric utilities located in the central region of the United States are reviewed in this Issue; eastern electrics, in Issue 1; and the remaining utilities, in Issue 11.

How do we determine which one-time items are nonrecurring and which aren’t? We discuss this below.

Every company in the Electric Utility Industry has reported first-quarter results. There were some similarities among what the companies stated.

Electric utility stocks, as a group, have fared far better than the broader market averages of late. This industry is living up to its reputation as a defensive haven.

What Is Nonrecurring And What Isn’t

Electric utilities often show two sets of earnings: those presented on a GAAP basis and “adjusted” or “operating” earnings. Subscribers might ask how we determine whether to include or exclude certain items that management excludes from its non-GAAP earnings. Sometimes, the figures shown in the pages of The Value Line Investment Survey are neither the GAAP nor the adjusted number.

Gains or losses on discontinued operations are always excluded from our earnings presentation. Otherwise, whether we include or exclude something depends on the nature and magnitude of the item. For instance, several companies record mark-to-market accounting gains or losses every quarter. American Electric Power, DTE Energy, and Fortis are among the companies in this Industry that book these items. Management normally excludes these from its definition of operating earnings. Nevertheless, we include these—despite the fact that this skews quarterly and annual earnings comparisons—because we won’t call something “nonrecurring” when it literally isn’t. Other items that are included in our presentation are unrealized gains or losses on a company’s decommissioning trusts for non-regulated nuclear assets; refunds of previously collected revenues; charges associated with harsh weather events such as hurricanes; and expenses associated with any kind of headcount reduction. Among the items that we typically exclude are writedowns of power plants or goodwill; gains or losses on the sale of nonutility subsidiaries; and fines. Yet even these will be included in our presentation if they are not large enough to be deemed material by the analyst.

What Happened In The First Quarter

By the second week of May, every company in the Electric Utility Industry had reported first-quarter results. In contrast to the reported decline in GDP in the first quarter, many utilities were optimistic about the economic health of their service territories. American Electric Power, Energy, OGE Energy, and WEC Energy Group made positive comments about the state of their economies. Energy saw a 6.5% increase in kilowatt-hour sales to industrial customers, which is significant because these customers are not affected by weather pat-

Utilities are also disclosing their plans for retiring coal-fired plants and replacing them with renewable capacity. CMS Energy says its utility subsidiary will be out of coal by 2025, earlier than most companies. However, obtaining solar panels has been problematic due to the effects of inflation, supply-chain disruptions, and (possibly) increased tariffs on panels imported from four countries in Southeast Asia. This might well prompt some companies to delay their expected additions of solar capacity. Some might turn to wind instead.

So far, electric companies have done an able job of dealing with the effects of inflation. They have cut discretionary expenses and reduced the employee headcount. Some costs are harder to control, such as insurance and property taxes. Utilities may seek recovery of higher costs through a rate increase, but there is no guarantee that this will be fruitful. Regulatory commissions are cognizant of the effects of inflation in power prices on electric customers, too.

Conclusion

On balance, stocks in the Electric Utility Industry have risen in price just slightly in 2022. This is in contrast to the action of the broader market averages, which plummeted in recent weeks before making a partial recovery. Utility equities are known for their defensive characteristics. The average Safety rank of stocks in the Electric Utility Industry is 2 (Above Average), and most of these issues have high scores for Price Stability. The generous dividend yields of utility issues appeal to income-oriented investors. The industry’s average dividend yield is 3.2%, which is more than one percentage point above all dividend-paying stocks under our coverage. However, intermediate- and long-term investors should note that the equities in this Industry lack appeal for the 18-month span or the 3- to 5-year period. In fact, the recent quotations for some utility stocks are within their 2025-2027 Target Price Range.

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