All of the major electric utilities located in the western region of the United States are reviewed in this Issue; eastern electrics, in Issue 1; and the remaining utilities, in Issue 5.

Nuclear construction worries have faced two companies in the Electric Utility Industry. We discuss this in this Issue. We also discuss nuclear matters affecting companies specifically in this Issue.

Electric utility equities are known for their generous dividend yields. We look at dividends, and dividend growth, in this industry.

Most stocks in the Electric Utility Industry have performed well so far in 2017. We still consider the group expensively priced.

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Nuclear Worries

One of the biggest stories of the year in the electric utility industry is the bankruptcy filing of Toshiba's Westinghouse subsidiary. Westinghouse is the contractor on the nuclear construction projects of Georgia Power and South Carolina Electric & Gas, which are utility subsidiaries of Southern Company and SCANA, respectively (each covered in Issue 1). Each utility is adding two units at the site of a nuclear plant. The projects had extensive delays and cost overruns. This hurt Westinghouse to the point where it sought bankruptcy protection.

What's next? The companies might find another contractor to complete the projects; complete one unit and delay the other; complete one unit and cancel the other; or cancel both units. The uncertainty has hurt the price of SCANA's stock, which has lost nearly 10% of its value so far this year. Southern Company is much larger, so its stock hasn't been hurt as badly (although it has still underperformed the group). Each company was scheduled to release first-quarter results and update analysts on its plans shortly after this report went to press. The companies believe that, even if the projects are canceled, they will not have to write off their ownership in the facilities. This remains to be seen.

In the West, there is not a lot of ownership of nuclear power. Public opposition to nuclear power has been a factor in this. Public Service of Colorado (now owned by *Xcel Energy*) closed the Fort Saint Vrain nuclear plant in 1989 and reopened it as a gas-fired facility in 1996. *Portland General Electric* shut the Trojan nuclear plant in 1993. Trojan had been the subject of some ballot measures that sought closing of the facility. The two units at the San Onofre station in California, owned by Southern California Edison and San Diego Gas and Electric (utility subsidiaries of *Edison International* and *Sempra Energy*), were closed in 2013 due to equipment damage. There is still significant opposition to nuclear power in the Golden State, so *PG&E* reached an agreement to shut the two units at the Diablo Canyon site when their licenses expire in 2024 and 2025. This settlement is subject to approval of the California Public Utilities Commission. Finally, the three-unit Palo Verde station is run by Arizona Public Service, a subsidiary of *Pinnacle West*. Southern California Edison, *PNM Resources*, and *El Paso Electric* also own minority stakes in Palo Verde.

Dividend Growth

Electric utility stocks are known for their above-average dividend yields. Lately, the average yield of this industry has been 3.4%. This is low, by historical standards, but still compares favorably with the 2.1% median of all dividend-paying issues covered in *The Value Line Investment Survey*.

Utility investors usually don't just want an attractive yield, they want to have dividend growth, too. Annual dividend growth in this industry is 5%, on average. Some companies are doing far better. *Sempra* raised its payout 8.9% this year. On the other hand, *Hawaiian Electric Industries* has not raised its disbursement since 1996.

Conclusion

The past year was a good one for most electric utility stocks, and 2017 has followed suit. The price of most utility issues has risen by at least a mid-single-digit pace, with several advancing by more than 10%. And this is just the stock movement. When the dividends are factored in, the total returns are even more impressive. There are some exceptions. SCANA, mentioned above, is the most noteworthy of these. *Avista* is another laggard, having barely moved due to investors' concerns about an unfavorable regulatory ruling the utility received in late 2016.

Despite the expectation that the Federal Reserve will pursue multiple increases in interest rates this year, utility investors are unfazed. Interest rates are so low that, even after some tightening by the Fed, they would still be relatively low by historical standards. Thus, investors continue to "reach for yield." This is reflected in the lofty valuation of many of these equities. Most electric utility issues are trading within their 2020-2022 Target Price Range. In fact, some are trading near (or even above) the upper level of this range. This is why the 3- to 5-year total return potential of many of the stocks in this group is unimpressive, at just 3%.

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