Q4 2016
Stock Performance

HIGHLIGHTS

- The EEI Index returned a strong 17.4% in 2016, outperforming the major market averages. But the full-year was very much a tale of two halves.
- The EEI Index jumped 23.5% through June 30, the strongest first half for utilities in a quarter century, as interest rates fell and global growth worries pushed investors into defensive sectors. In the second half, stronger economic data and rising rates caused utilities to decline and lag cyclical, economically sensitive sectors.
- Analysts said Donald Trump's election win could produce incremental, but not sudden, change for the industry. The trend toward renewable and natural gas generation will continue to be supported by economics, state policies and broad public support.
- There was little meaningful change in the industry's fundamental picture during 2016. Power demand was flat, natural gas prices remained low., balance sheets are healthy and state regulation is largely fair.
- The industry's ability to produce slow, steady earnings and dividend growth, along with its strong 3.4% yield, should continue to appeal to investors.

COMMENTARY

The EEI Index returned a strong 17.4% in 2016, just ahead of the Dow Jones Industrial Average's 16.5% return and well ahead of both the S&P 500's 12.0% return and the Nasdaq Composite's 7.5% gain. But the full-year was very much a tale of two halves. Rarely, in fact, does a full-year pattern of stock market return bisect itself precisely at the mid-year point, but that was the case for electric utilities as a group in 2016. Moreover, the year offered a showcase in the way fast-

I. Index Comparison (% Return)

Index	2010	2011	2012	2013	2014	2015	2016
EEI Index	7.0	20.0	2.1	13.0	28.9	-3.9	17.4
Dow Jones Inds.	14.1	8.4	10.2	29.6	10.0	0.2	16.5
S&P 500	15.1	2.1	16.0	32.4	13.7	1.4	12.0
Nasdaq Comp.^	16.9	-1.8	15.9	38.3	13.4	5.7	7.5

Calendar year returns shown for all periods, except where noted.
^Price gain/loss only. Other indices show total return.
Source: EEI Finance Department, S&P Global Market Intelligence

II. Category Comparison (% Return)

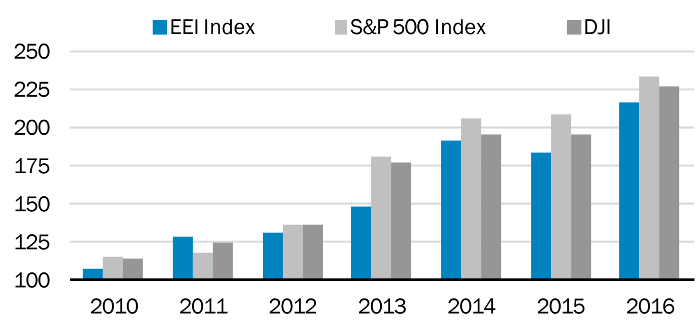
U.S. Investor-Owned Electric Utilities

Index	2010	2011	2012	2013	2014	2015	2016
All Companies	11.9	21.4	4.8	17.3	27.6	-2.0	22.2
Regulated	15.8	22.3	4.7	17.0	28.9	-0.7	21.2
Mostly Regulated	8.5	19.5	5.8	16.0	27.5	-3.7	24.6
Diversified	-5.2	21.4	0.8	47.5	6.6	-14.4	25.6

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

III. Total Return Comparison

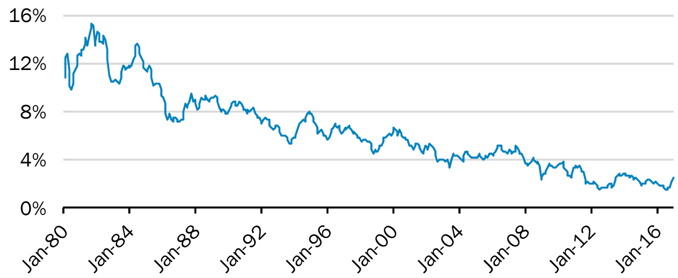
Value of $100 invested at close on 12/31/2009



Note: Year end, except where noted.
Source: EEI Finance Department, S&P Global Market Intelligence

IV. 10-Year Treasury Yield — Monthly

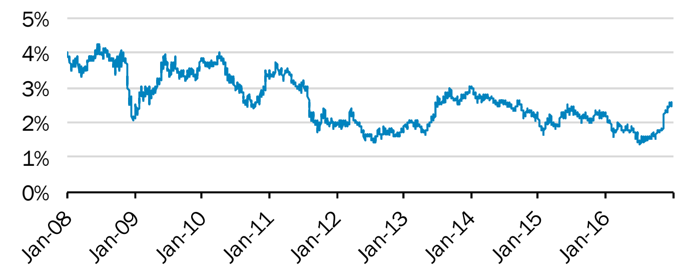
Average Monthly Yield, 1/1/1980 through 12/31/2016



Source: U.S. Federal Reserve

V. 10-Year Treasury Yield — Daily

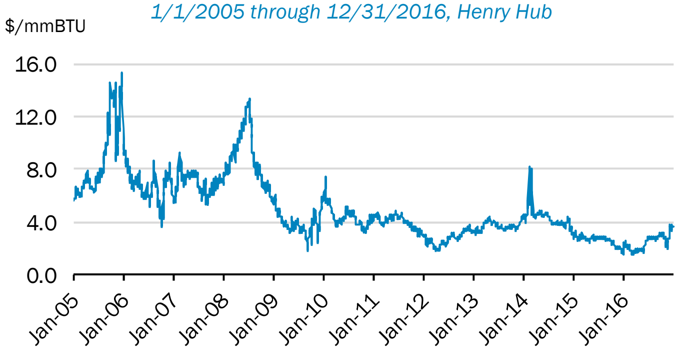
Daily Yield, 1/1/2008 through 12/31/2016



Source: U.S. Federal Reserve

VI. Natural Gas Spot Prices

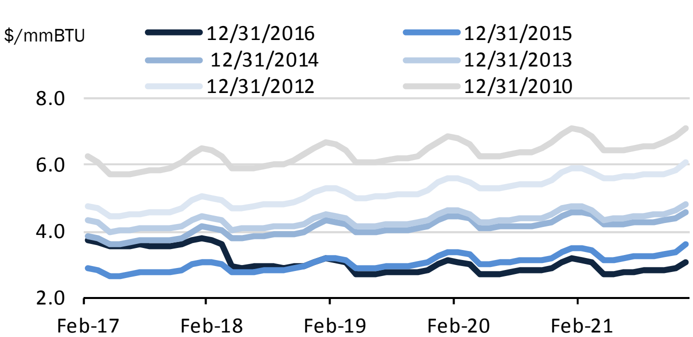
1/1/2005 through 12/31/2016, Henry Hub



Source: S&P Global Market Intelligence

VII. NYMEX Natural Gas Futures

February 2017 through December 2021, Henry Hub



Source: S&P Global Market Intelligence

VIII. Returns by Quarter

U.S. Investor-Owned Electric Utilities

Index	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
EEI Index	9.9	7.3	-4.1	14.0	-5.0	-6.3	6.3	1.6	15.6	6.9	-5.4	0.5
Dow Jones Industrials	-0.2	2.8	1.9	5.2	0.3	-0.3	-7.0	7.7	2.2	2.1	2.8	8.7
S&P 500	1.8	5.2	1.1	4.9	1.0	0.3	-6.4	7.0	1.4	2.5	3.9	3.8
Nasdaq Comp.^	0.5	5.0	1.9	5.4	3.5	1.8	-7.4	8.4	-2.8	-0.6	9.7	1.3

Category*	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
All Companies	11.6	5.0	-6.0	15.8	-4.0	-7.7	7.5	2.8	15.5	7.7	-4.3	2.7
Regulated	11.6	4.7	-6.2	17.7	-3.7	-8.3	9.4	2.8	15.9	7.2	-4.3	1.9
Mostly Regulated	9.8	7.6	-3.7	12.0	-4.4	-6.0	4.5	2.6	13.2	10.1	-3.7	3.8
Diversified	40.6	-17.4	-14.6	7.6	-5.8	-7.1	-6.5	4.6	21.6	2.2	-7.8	9.5

* Returns shown here are unweighted averages of constituent company returns. The EEI Index return shown above is cap-weighted.
Source: EEI Finance Department, S&P Global Market Intelligence and company annual reports.

IX. Sector Comparison, Trailing 12 mo. Total Return

For the twelve-month period ending 12/31/16

Sector	Total Return
Oil & Gas	26.3%
Telecommunications	24.0%
Basic Materials	20.3%
Industrials	19.5%
EEI Index	17.4%
Financials	17.3%
Utilities	17.1%
Technology	14.2%
Consumer Services	6.0%
Consumer Goods	5.3%
Healthcare	-2.4%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_US_Indexes_Industry_Indexes_Fact_Sheet.pdf
Source: EEI Finance Dept., Dow Jones & Company, Yahoo! Finance

X. Sector Comparison, Q4 2016 Total Return

For the three-month period ending 12/31/16

Sector	Total Return
Financials	13.4%
Oil & Gas	7.1%
Industrials	5.9%
Basic Materials	5.9%
Telecommunications	5.1%
Consumer Services	3.1%
Technology	1.4%
EEI Index	0.5%
Utilities	0.5%
Consumer Goods	-1.9%
Healthcare	-3.8%

Note: Sector Comparison page based on the Dow Jones U.S. Indexes, which are market-capitalization-weighted indices. Find more information at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_US_Indexes_Industry_Indexes_Fact_Sheet.pdf
Source: EEI Finance Dept., Dow Jones & Company, Yahoo! Finance

XI. Market Capitalization at December 31, 2016 (in $ Mil.)

U.S. Investor-Owned Electric Utilities

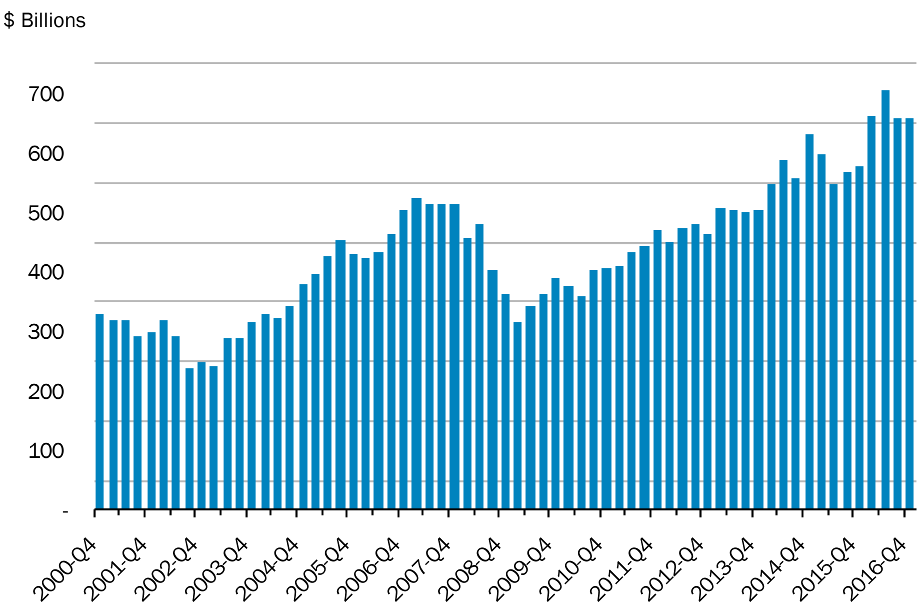
Company	Stock Symbol	$ Market Cap	% Total
NextEra Energy, Inc.	NEE	55,346	8.39%
Duke Energy Corporation	DUK	53,480	8.10%
Dominion Resources, Inc.	D	47,938	7.26%
Southern Company	SO	47,616	7.22%
Exelon Corporation	EXC	32,828	4.98%
American Electric Power Co.	AEP	30,957	4.69%
PG&E Corporation	PCG	30,446	4.61%
Sempra Energy	SRE	25,199	3.82%
Edison International	EIX	23,469	3.56%
PPL Corporation	PPL	23,090	3.50%
Consolidated Edison, Inc.	ED	22,436	3.40%
Public Service Entr. Group	PEG	22,159	3.36%
Xcel Energy Inc.	XEL	20,714	3.14%
WEC Energy Group, Inc.	WEC	18,510	2.81%
DTE Energy Company	DTE	17,633	2.67%
Eversource Energy	ES	17,552	2.66%
FirstEnergy Corp.	FE	13,162	1.99%
Entergy Corporation	ETR	13,153	1.99%
Ameren Corporation	AEE	12,727	1.93%
AVANGRID, Inc.	AGR	11,724	1.78%
CMS Energy Corporation	CMS	11,579	1.75%
CenterPoint Energy, Inc.	CNP	10,612	1.61%
SCANA Corporation	SCG	10,472	1.59%

Company	Stock Symbol	$ Market Cap	% Total
Pinnacle West Capital Corp.	PNW	8,694	1.32%
Alliant Energy Corporation	LNT	8,609	1.30%
Westar Energy, Inc.	WR	8,007	1.21%
NiSource Inc.	NI	7,136	1.08%
OGE Energy Corp.	OGE	6,680	1.01%
MDU Resources Group, Inc.	MDU	5,619	0.85%
Vectren Corporation	VVC	4,318	0.65%
Great Plains Energy Inc.	GXP	4,228	0.64%
IDACORP, Inc.	IDA	4,051	0.61%
Portland General Electric Co.	POR	3,853	0.58%
Hawaiian Electric Indus., Inc.	HE	3,580	0.54%
Black Hills Corporation	BKH	3,201	0.49%
ALLETE, Inc.	ALE	3,171	0.48%
NorthWestern Corporation	NWE	2,748	0.42%
PNM Resources, Inc.	PNM	2,735	0.41%
Avista Corporation	AVA	2,554	0.39%
MGE Energy, Inc.	MGEE	2,264	0.34%
El Paso Electric Company	EE	1,877	0.28%
Otter Tail Corporation	OTTR	1,584	0.24%
Empire District Electric Co.	EDE	1,502	0.23%
Unitil Corporation	UTL	634	0.10%
Total Industry		**659,845**	**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



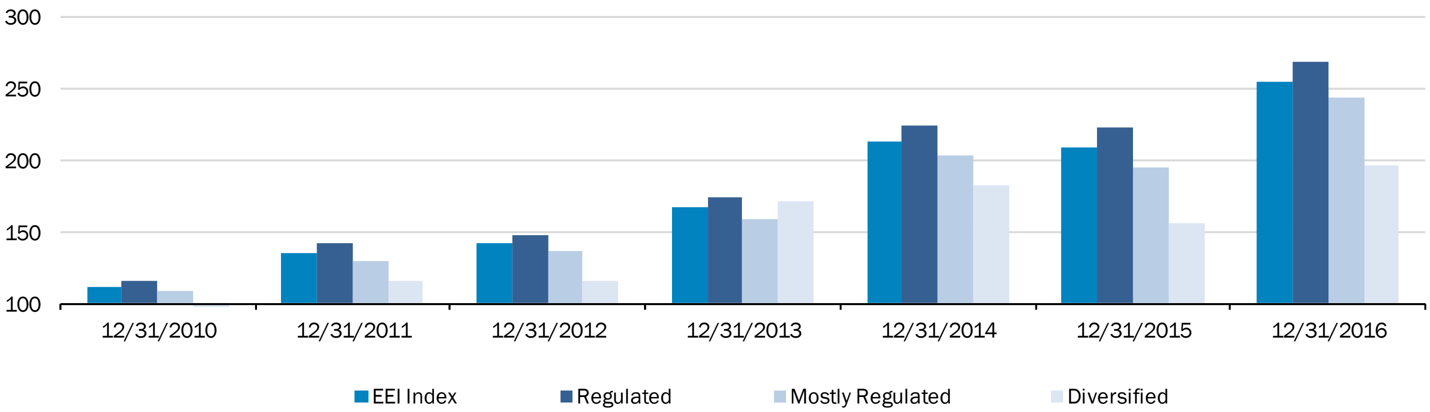
Note: Change in EEI Index market capitalization reflects the impact of buyout and spin-off activity in addition to stock market performance.
Source: EEI Finance Dept., S&P Global Market Intelligence

EEI Index Market Cap (in $Millions)

Q3-02	238,331	Q4-09	389,672
Q4-02	249,553	Q1-10	377,281
Q1-03	240,598	Q2-10	360,044
Q2-03	289,454	Q3-10	402,014
Q3-03	288,073	Q4-10	407,275
Q4-03	314,324	Q1-11	411,164
Q1-04	329,601	Q2-11	433,236
Q2-04	323,193	Q3-11	442,352
Q3-04	342,460	Q4-11	471,635
Q4-04	380,305	Q1-12	450,597
Q1-05	395,663	Q2-12	475,083
Q2-05	425,989	Q3-12	479,540
Q3-05	454,727	Q4-12	463,916
Q4-05	428,825	Q1-13	507,163
Q1-06	422,899	Q2-13	505,091
Q2-06	432,848	Q3-13	499,776
Q3-06	464,281	Q4-13	504,365
Q4-06	503,858	Q1-14	548,006
Q1-07	525,088	Q2-14	587,735
Q2-07	515,565	Q3-14	557,472
Q3-07	514,946	Q4-14	632,185
Q4-07	514,486	Q1-15	596,851
Q1-08	456,711	Q2-15	549,164
Q2-08	482,024	Q3-15	568,250
Q3-08	404,472	Q4-15	576,819
Q4-08	361,921	Q1-16	662,574
Q1-09	316,070	Q2-16	706,366
Q2-09	343,844	Q3-16	658,728
Q3-09	363,185	Q4-16	659,845

XIII. Comparative Category Total Annual Returns

U.S. Investor-Owned Electric Utilities, Value of $100 invested at close on 12/31/2009



		2010	2011	2012	2013	2014	2015	2016
EEI Index Annual Return (%)		11.87	21.39	4.82	17.27	27.63	(2.05)	22.21
EEI Index Cumulative Return ($)	100.00	111.87	135.79	142.34	166.92	213.04	208.66	255.01
Regulated EEI Index Annual Return		15.75	22.30	4.72	16.97	28.92	(0.67)	21.16
Regulated EEI Index Cumulative Return	100.00	115.75	141.56	148.24	173.40	223.55	222.04	269.02
Mostly Regulated EEI Index Annual Return		8.51	19.52	5.81	15.97	27.46	(3.67)	24.57
Mostly Regulated EEI Index Cumulative Return	100.00	108.51	129.68	137.21	159.13	202.82	195.37	243.37
Diversified EEI Index Annual Return		(5.16)	21.36	0.78	47.54	6.61	(14.43)	25.59
Diversified EEI Index Cumulative Return	100.00	94.84	115.09	115.98	171.12	182.43	156.11	196.06

Calendar year returns shown, except where noted.
Returns are unweighted averages of constituent company returns.

changing global macroeconomic trends, rather than the industry's very slow-changing fundamentals, tend to drive the industry's stock performance over shorter-term time frames.

A Tale of Two Halves

The first half of the year was the strongest for utility stocks in a quarter century, both in absolute terms and relative to the broad market averages. The EEI Index jumped 23.5% through June 30, while the Dow Jones Industrials Average and S&P 500 each returned about 4% and the Nasdaq declined 3.3%. Utility shares peaked for the year in early July, then declined about 5% in Q3 and were flat in Q4, while the Dow and S&P 500 gained 8% to 10%, respectively, in the year's second half. Trends in interest rates and global economic data largely produced these moves.

First Half: Weak GDP and Falling Yields

The broad market began 2016 with one of its worst starts in history, falling about 10% through mid February as concern over weakening Chinese economic data and sharply falling oil prices compounded worries about already sluggish global

XIV. EEI Index Top Ten Performers

For the 12-month period ending 12/31/2016

Company	% Return	Category
MDU Resources Group, Inc.	62.0	MR
Otter Tail Corporation	58.9	R
MGE Energy, Inc.	43.7	MR
CenterPoint Energy, Inc.	40.3	MR
Westar Energy, Inc.	36.6	R
Black Hills Corporation	35.8	R
Exelon Corporation	32.5	D
OGE Energy Corp.	32.0	R
Unitil Corporation	30.7	R
ALLETE, Inc.	30.7	MR

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

economic growth. The U.S. 10-year Treasury yield slid from 2.3% to 1.7% by late February, then drifted sideways with a downward bias through Q2, falling to 1.4% by early July. U.S. real gross domestic product (GDP) data gave substance to slowdown fears; real GDP grew only 0.8% quarter-to-quarter in Q1 after rising only 0.9% in Q4 2015, while Q2 GPD grew only 1.4%. Slow growth was a global phenomenon as well. European continent-wide real GDP growth was mired at a 0.4% quarter-to-quarter pace in the first half, while Japan was also under stuck 1% annualized. Global interest rates declined as well. By late June, an astonishing range of European government debt yields were in negative territory. Swiss government yields were negative out to the 20-year maturity, German bunds out to the nine-year point, Austrian sovereign debt to the eight-year point and France to seven years. Japan's sovereign yields were negative out to 15 years. Fully twelve European nations, as well as Japan, had negative yields on two-year sovereign debt. Low to negative global interest rates forced yield hungry overseas investors into positive yielding U.S. bonds and into dividend paying U.S. equities. This flood of global capital contributed to utilities' first half strength.

Second Half: Stronger GDP and Rising Yields

The 10-year U.S. Treasury yield bottomed for the year on July 8 at 1.37% and it was up from there; utility stocks peaked for the year on July 6 and then declined. The 10-year yield climbed to 1.6% by September 30 and — sparked by the prospect of aggressive fiscal stimulus and tax cuts created by Donald Trump's unexpected presidential election victory — to 2.5% at yearend. Stronger U.S. economic data was a key reason for the rate rise. Strength in consumer spending helped the U.S. economy grow 3.5% in Q3, its fastest quarterly growth rate in two years. The outlook for corporate profits also strengthened. After a four quarter stretch of year-to-year declines in S&P 500 aggregate earnings (due in part to weak energy sector results from the two year fall in oil prices) corporate earnings growth turned positive in Q3. Analysts expect S&P 500 earnings to rise 11% to 12% in both 2017 and 2018, according to consensus estimates at yearend. Corporate earnings in Europe are forecast to be up 15% in 2017 and 10% in 2018.

The jump in interest rates and stronger profit outlook caused utilities to lag more cyclical and economically sensitive market sectors. In Q4, for example, the EEI Index gained 0.5% while the oil & gas, industrials and basic materials sectors showed 6% to 7% gains while financials jumped over 13% on hopes for a profit recovery from better net interest margins and potential for easier regulation in a Trump administration.

Industry Fundamentals Remain Stable

There was little meaningful change in the industry's fundamental picture during 2016. Electricity demand remained virtually flat; total electric output rose only 0.2% over the level in 2015 in the lower 48 states. Nationwide power demand has, in fact, been about flat for a decade; Energy Information Administration (EIA) net generation data shows 2007 generation at 4,064,702 thousand megawatthours and 2015 generation at 4,077,601 thousand megawatthours. Output notched up in 2007 to 4,156,745 thousand megawatthours but fell during the subsequent recession and has yet to reach the 2007 level. Yet the pattern is not a new trend or a surprise; the impact of energy efficiency programs and the changing economic landscape (away from energy-intensive industry and manufacturing and toward services) has been well recognized in the industry for several years. In response, a number of state utility commissions have adapted rate designs that help utilities cope with flat demand while still enabling investment required to comply with environmental requirements, grid modernization and upgrades to vital infrastructure. Nevertheless, the outlook for flat demand is a "new normal" that represents a departure from the consistent demand growth that characterized the industry's experience for more than a century.

While the industry has reduced its exposure to the merchant generation business, several large utilities maintain competitive subsidiaries and influence EEI Index performance. Natural gas generation sets power prices in many competitive market areas. Natural gas spot prices in 2016 averaged about $2.50/mmBTU at the national benchmark Henry Hub in January 2017, the lowest annual average price since 1999. As indicated in Chart VI, the monthly average price fell below $2.00/MMBtu from February through May, but later increased, holding through most of December above $3.50/MMBtu. Analyst outlooks at yearend generally don't forsee anything that would produce a sustained up move in natural gas; the potential reserve supply from the shale gas revolution is simply to great and many expect spot gas to remain below $3.50/mmBTU over the next year or two. Chart VII, NYMEX Natural Gas Futures, starkly shows the magnitude of the multi-year decline in natural gas prices, which has both crushed competitive power prices and also supported the industry's ongoing migration away from coal generation to much cleaner natural gas generation. As recently as 2010 gas futures showed market expectations for $6/mmBTU gas.

While utility regulation largely occurs at the state level and must be analyzed state by state, industry analysts at yearend generally viewed regulation as largely fair and balanced overall for the industry taken as a whole. While allowed return on equity has come down in recent years, so have interest rates. Moody's in early 2017 called the industry's credit outlook "stable" based on expectation that utilities will continue to recover costs in a timely manner and maintain stable cash flows.

The Trump Effect

On the afternoon of November 8, 2016, most investors expected that a President-elect Clinton would continue Obama administration energy policies. President-elect Trump's skepticism about global warming, coal-friendly campaign messaging and call for significant corporate tax cuts forced industry analysts back to the drawing board on November 9 to flesh out the impact of a Trump administration on industry trends. The consensus across Wall Street analyst reports published near year end was that of possibly incremental, but certainly not sudden, change. The industry's migration from coal to natural gas and renewable generation is driven by forces that transcend presidential politics; as one analyst report put it, "the clean energy train has left the station". Low natural gas prices and the low cost of wind generation favor these sources over higher-cost coal generation. State renewable portfolio mandates — which generally have bipartisan political support and strong public support — continue to underpin renewable development. Moreover, corporate commitments to use renewable power (called corporate renewable portfolio standards) are also a likely significant long-term source of demand for renewable generation. While a Trump administration may roll back tax credits for renewables and may be more encouraging toward nuclear power, nuclear's high cost makes it a difficult choice for new baseload plants.

Implementation of the Clean Power Plan or CPP (the Obama administration's plan to regulate carbon emissions from the power sector) was stayed by the U.S. Supreme Court in February 2016 and its prospects for eventual implementation defy easy or brief analysis. Yet it might already be a moot point. SNL's December 5 issue of *Utility Week* reported a Sierra Club analysis shows the power industry's multi-year move away from coal has already reduced carbon emission to the point that "the power industry could come into compliance with the Clean Power Plan's 2030 goal of cutting carbon emissions 32% below 2005 levels by 2030 by as early as next year or at least by 2021." And the CPPs impact would have taken clear shape too far in the future to have a big effect on stock prices today.

The possible contours of a Trump administration tax policy and its impact on utilities also produced considerable post-election analysis. Candidate Trump proposed a reduction in the corporate tax rate from 35% to 15%, expensing of capital expenditures and possible elimination of the interest expense deduction. Regulated utilities would pass through tax savings to rate payers but may actually see rate base growth accelerate slightly after taking into account the impact of a reduced tax rate on the value of ongoing tax deductions and calculation of rate base., according to some analysts.

Slow Growth and Dividends

Flat demand "growth" is posing a challenge to utilities seeking to maintain mid-single-digit earnings growth with stable or slowly growing dividends. Several companies have acquired gas distribution utilities and invested in natural gas infrastructure in search of growth. Other smaller utilities have agreed to be acquired in order to give shareholders a boost and enhance financial and operation strength as part of a larger company. The industry's earnings growth outlook has also been challenged somewhat by a flattening in industry capex spending, since capex translates into rate base growth and non-rate base investments that can produce earnings growth. But companies have also responded to growth challenges with increasingly stringent operations and maintenance (O&M) cost containment.

Nevertheless, capex-related growth opportunities continue to result from the nation's ongoing move to cleaner generation, from building transmission necessary to move power from plants to load centers, updating and modernizing the grid, enhancing grid reliability and from distribution system upgrades and maintenance. The industry's total capital expenditures have doubled in the last decade and nearly tripled since 2004. EEI estimates 2016 capex at about $120 billion, up from $103 billion in 2015 and $96 billion in 2014. EEI estimates at yearend show projected capex at a still-elevated but lower $105 billion in 2017 and $97 billion in 2018, as Mercury Air Toxic Standards (MATS) compliance related spending tails off (MATS is an EPA rule passed in 2011 under authority of the Clean Air Act to reduce mercury and other power plant emissions). These estimates are based on publicly available disclosure in 10Ks and company reports and have tended to be conservative in relation to subsequent actual spending.

The industry is now focused largely on regulated businesses with a strong 3.4% dividend yield (at December 31, 2016), healthy balance sheets and the chance to drive the nation's ongoing transition to cleaner energy and a modernized grid. The classic 20th century utility formula — slow earnings and dividend growth — should continue to attract investors. Provided inflation doesn't surge and produce sharply higher interest rates, utility shares should continue to do well on a relative (and possibly absolute) basis when bearish sentiment dominates the broader stock market.■