

UTILITY INVESTORS

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One of my friends invests all of his savings in electric utility stocks. Since his retirement from an electric utility company, he has remained active on one of the industry committees and he gets his corporate status reports from his colleagues on the committee. He has been quite successful in his investments using this strategy. I have two mutual fund retirement accounts. One invests seven percent of its assets in electric power companies and the other 4.2 percent. What is the reason for investing in electric utilities rather than other segments of the stock market? What is the magic of such a conservative industry?

A 1993 book by Donald Cassidy, **Plugging into Utilities** (1), explains how to invest in electric utilities safely. Utility investors look for their total return. This is the combination of dividend yield and dividend growth rate. Also, electric utilities offer the security of a business which is both a monopoly and is necessary for our existence. A steady growth in dividends is a "buy" signal and decelerated growth is a "sell" signal. As the economy grows, the use of energy expands and electric utilities grow with it. Mild weather in the East contributes to a lower energy requirement and extreme weather results in the need for more energy. Over time the utility market grows because the population grows. If the utility is conservative and well operated, its demand and yield grows.

Between 1960 and 1991 the mean return of S.&P. 45 utilities was 11.7 percent while the S.&P. 385 industrials had a return of 11.5 percent. Most investors will prefer the security and return of the utilities over average industrial stocks.

Mr. Cassidy points out that, other than nuclear mishaps, nothing can go wrong with an electric utility stock. From his book, "Displacement of energy (electric power and gas) would require the invention of a magical source of energy, which physics and other sciences tell us is impossible: the perpetual motion machines or some other 'free' source of energy whose output exceeds its input."

This is based on his level of knowledge in 1993 and is exactly what this paper is about. Technological advances in the field of new energy introduce a large uncertainty into the value of electric utility stocks and bonds. The high energy physics community, the U.S. Department of Energy and the U.S. Patent office have been fighting a rear guard action against new energy developments.

The Patterson cold fusion patent has been granted and laboratory results at the University of Illinois have demonstrated over ten times the

Top 10 Reasons for Switching Utilities

10. Listening to Muzak while on hold when the power is out.
9. Numerous outages cause the tenant's ice cream to melt.
8. Interrupting my secretary's game of solitaire with voltage dips.
7. "I'd like to introduce you to your new Rep of the Month."
6. How many utility people does it take to meet with a customer? (Answer: six)
5. ...And they still have to check with someone else for a decision.
4. "You want that new service when?"
3. Not understanding the customer's business nor the customer's needs (the business for a retailer is selling socks, not saving energy).
2. Thinking that "competitive utility" is not an oxymoron.

**And the Number 1 reason for switching utilities:
It's a penny cheaper across the street.**

GEORGE OWENS, DIRECTOR OF ENGINEERING FOR THE ROUSE COMPANY IN COLUMBIA, MD.

thermal power as input electrical input power. A private company, CETI, has been formed to commercialize this method. (2)

Electric utilities have such a tremendous investment in facilities and coal mines that they require a growing source of sales in order to cover their debts. Investment advisor Steve Halpern wrote in a current article "Advisors point to electric utilities" and recommended six utilities as worthwhile buys, one of which was KU Energy. (3) It is a low cost, well managed company which has seen 13 straight years of dividend increases.

Using KU Energy as an example, in 1994 it had an operating revenue of \$636.628 million and a net operating income of \$99.7 million or 15.7 percent. It had a total capitalization of \$1.152 billion of which 43 percent was for long-term debt. Interest payment on long-term debt was \$32.147 million or 32.2 percent of its net income. It has to service this debt before there can be any return to the stock holders.

Those involved in the new energy field predict a 50 percent penetration in 10 years. This means that one-half of the electric public utility market will be gone in 10 years. Within three years, their market will begin diminishing instead of growing. They will still have their high debt level while their base for servicing that debt will be dropping. When their growth rate decelerates, this is a signal to sell if in the market and to avoid buying if out of the market.

When cold fusion was first announced by Pons and Fleischmann, the electric utility industry set up a \$1 million per year research contract at Stanford Research Institute through their Electric Power Research Institute, EPRI. This was a political decision to avoid involvement by the U.S. Department of Energy. In 1994, the S.R.I. final report concluded that excess power of two or more had been achieved. This contract has been canceled and is now funded by Japan's MITI office (2).

In a discussion with the Director of Research of a large electric utility, I was told that the energy source did not matter. The utilities would still be needed to deliver the power. This is just not true because new energy methods lend themselves to local energy converters.

The only recourse the electric utilities have will be to become a participant instead of an obstacles to the new energy field. Each company, individually, must find a way to participate in new energy developments or risk bankruptcy. They have demonstrated that they cannot act together by the EPRI - Stanford Research example.

I shall recommend that my two retirement funds drop their electric utility holdings until they can identify companies which have become a part of the field of new energy conversion.

(1). Donald L. Cassidy, **Plugging into Utilities**, Probus Publishing, Chicago, 1993.

(2). **New Energy News**, Vol. 3, No. 5, October, 1995, P.O. Box 58639, Salt Lake City, UT 84158-8639.

New ideas are resisted...But we must rapidly explore these new technologies, because what is at stake is life.

ADAM TROMBLY,
ASTROPHYSICIST

(3). Steve Halpern, "Advisers point to electric utilities," **Bradenton Herald**. Monday, October 30, 1995, Business Extra, p. 9.