

REAVES UTILITY INCOME FUND
Form N-CSRS
July 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21432

REAVES UTILITY INCOME FUND
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado
(Address of principal executive offices)

80203
(Zip code)

JoEllen L. Legg

Reaves Utility Income Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203
(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: October 31

Date of reporting period: November 1, 2008 - April 30, 2009

Item 1. **Reports to Stockholders.**

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SHAREHOLDER LETTER

April 30, 2009 (unaudited)

The six-month period ending April 30, 2009 brought us the first market signals that the global economic crisis may be easing. Broad based liquidation of equities continued unabated through the second week of March 2009. On March 9th the Fund's share price reached its nadir of \$7.39. Since then, investors began to aggressively accumulate common stocks, including those in the telephone, electric, gas, water utilities and energy sectors as the market anticipates the potentially beneficial impacts of the government stimulus.

There were encouraging signs. While access to credit markets has not been a significant problem for our companies, the credit markets have loosened and short term rates have come down. Nearly all of the companies in our portfolio can tap the credit markets on relatively favorable terms and many have. Dividend cuts have been much in the news recently. However, many of the companies that cut their dividends are financials, with fundamentally flawed business models, or industrials subject to rapidly deteriorating global demand. Dividend cuts by utilities remain an exception. Only three companies in the portfolio cut, but did not eliminate, their dividend since October 31, 2008 – two of the companies are electric utilities, Ameren and Great Plains Energy, and the third is General Electric. These cuts were more than offset by the eighteen companies that have either raised or announced increases to their dividends since the beginning of the year. Indeed we are hopeful many of our companies will raise their dividends in the coming twelve months.

Within our investment universe, electric utilities underperformed during the period. The electrics were down on the declining price of natural gas, an important price setter of electricity at the margin, declining industrial and commercial demand, most acutely felt in the industrial Midwest, and concerns about the impact of carbon legislation. This last issue especially affects generators with large coal exposures. During the period we shifted some investment away from generation and into regulated utilities including NSTAR in Massachusetts and Pinnacle West in Arizona.

Gas utilities declined during the period, but they experienced the greatest rebound in the last six weeks. The natural gas commodity price continued its decline, reaching a low of \$3.19 per million BTUs at Henry Hub on April 27, 2009. For the near term, the gas markets continue to be over-supplied. Over the past several years technological advances in drilling and production techniques have made possible the production of large quantities of natural gas from domestic shale formations. The increased quantities of gas from shale have entered the market as the economic slowdown reduced industrial demand. In addition the markets are beginning to anticipate the arrival, beginning in 2010, of LNG (liquefied natural gas) cargoes from new production out of the Middle East. However market dynamics are at work. The declining gas price has compelled some producers to shut in higher-cost production. The market is already anticipating decreased supply and higher prices; hence the

rally over the last few weeks. Indeed, gas stocks in the underlying portfolio were up over 30% in the six weeks ended April 30, 2009.

The telephone sector was relatively flat over the period, living up to its billing as a defensive group during a difficult economic environment. Frontier Communications, a 4.2% holding at the end of the period, came under some pressure, we believe, because of investor concerns about its credit metrics and the sustainability of the dividend. On May 13, 2009 Frontier announced a major acquisition of 4.8 million of Verizon's rural access lines. The deal, which should generate substantial synergies, should be cash-flow accretive within one year and should very significantly improve the credit metrics. After the deal closes in 2010, the new company should be the largest purely rural telephone company in the country. To smooth the regulatory approval process, the annual dividend will likely be cut from \$1.00 to \$0.75 when the deal closes. The improved balance sheet, superior cash flow, and growth opportunities of the new company will, in our view, more than offset what appears to be a temporary decline in the dividend.

Looking out to the second half of the fiscal year, we remain cautious. This means that we prefer regulated utilities and transmission companies to the generators; gas and nuclear-fired generation to coal; an emphasis on strong rural telecoms; and gas distribution and transmission to exploration and production. We look to invest in companies with strong balance sheets, rising cash flows, and growing dividends. Despite the downturn we are still able to find them within the utility and telephone sectors.

We appreciate your continued support.

Sincerely,

Ronald J. Sorenson

Portfolio Manager of the Reaves Utility Income Fund

Chief Executive Officer and Chief Investment Officer of W. H. Reaves & Company.

STATEMENT of INVESTMENTS

April 30, 2009 (unaudited)

	SHARES	VALUE
COMMON STOCKS 155.83%		
Electric 70.95%		
Consolidated Edison, Inc.	272,000	\$ 10,099,360
Duke Energy Corp.	1,832,400	25,305,445
FirstEnergy Corp.	80,000	3,272,000
Integrus Energy Group, Inc.	900,300	23,776,923
ITC Holdings Corp.	110,000	4,788,300
National Grid PLC	525,000	4,384,255
National Grid PLC Sponsored ADR	139,000	5,789,350
NSTAR	379,800	11,929,518
Pinnacle West Capital Corp.	560,000	15,332,800
PPL Corp.	709,854	21,231,733
Progress Energy, Inc.	700,000	23,884,000
SCANA Corp.	250,000	7,555,000
The Southern Co.	558,000	16,115,040
TECO Energy, Inc.	2,161,400	22,889,226
TransAlta Corp.	100,000	1,733,000
		198,085,950
Energy 5.41%		
BP Amoco PLC - ADR	350,000	14,861,000
Total - ADR	5,000	248,600
		15,109,600
Financials 5.04%		
Annaly Capital Management, Inc.	1,000,000	14,070,000
Gas 21.79%		
EQT Corp.	30,000	1,008,900
NiSource, Inc.	1,400,000	15,386,000
ONEOK, Inc.	900,000	23,553,000
Sempra Energy	100,000	4,602,000
Spectra Energy Corp.	1,122,500	16,276,250
		60,826,150
Other 0.29%		
Pfizer, Inc.	60,000	801,600
Telephone 49.90%		
AT&T Corp.	945,965	24,235,623
BCE, Inc.	700,000	14,980,000
CenturyTel, Inc.	396,000	10,751,400
Embarq Corp.	540,000	19,742,400
Froniter Communications Corp.	3,090,065	21,970,362

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	SHARES		VALUE
Telephone (continued)			
Qwest Communications International, Inc.	250,000	\$	972,500
Telecom Corp. of New Zealand - ADR	35,001		280,358
Telefonica S.A. - ADR	100,000		5,629,000
Verizon Communications	740,000		22,451,600
Vodafone Group PLC - ADR	60,000		1,101,000
Windstream Corp.	2,070,000		17,181,000
			139,295,243

Water Utilities 2.45%